



# Canadian Air Transport Security Authority

## Summary of the

2017/18 – 2021/22 Corporate Plan  
2017/18 – 2021/22 Operating Budget  
2017/18 – 2021/22 Capital Budget



## **Disclosure**

These documents are being submitted in accordance with section 125 of the *Financial Administration Act (FAA)* and summarize the Corporate Plan that was approved by the Governor in Council, and the Operating and Capital Budgets that were approved by the Treasury Board in June 2018.

In accordance with section 153 of the *FAA*, information that could be detrimental to the commercial interests of the Corporation if published for public consumption has not been included. Similarly, aviation-security sensitive information has not been included in this Summary.

The French version of the Corporate Plan Summary is provided for translation purposes only. In the case of any discrepancy, inconsistency, inaccuracy, ambiguity or contradiction between the wording of the French version and the wording of the English version of this Corporate Plan, the wording of the English version shall prevail.

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## EXECUTIVE SUMMARY

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In accordance with the *Canadian Air Transport Security Authority Act (CATSA Act)* and supported by screening contractors and their screening officer workforce, 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 is an agent Crown corporation, funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport.

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

- **Pre-Board Screening (PBS):** the screening of passengers and their belongings prior to their entry into the secure area of an air terminal building;
- **Hold Baggage Screening (HBS):** the screening of passengers' checked (or hold) baggage to prevent the boarding of prohibited items;
- **Non-Passenger Screening (NPS):** the random screening of non-passengers accessing restricted areas at the highest risk airports; and
- **Restricted Access Identity Card (RAIC):** the program, which uses iris and fingerprint biometric identifiers to allow non-passengers access to the restricted areas of airports.

This Corporate Plan is a comprehensive five-year outlook that identifies how CATSA will meet its obligations as described in legislation. Each year, CATSA reviews its past performance and results, analyzes its complex operating environment, and identifies key issues, opportunities and challenges that could impact the organization over the planning period.

As further detailed in Chapters 2 and 3, the following key priorities have been identified.

### ***Growing Passenger Volumes and Increasing Wait Times***

In 2010/11, CATSA screened approximately 47.7 million passengers at designated airports. By the end of 2017/18, CATSA is forecasted to screen 65.6 million passengers. By 2021/22, passenger volumes are expected to reach approximately 76.8 million. Meanwhile, the hourly billing rates continue to rise. CATSA has not been funded proportionally to respond to passenger growth and billing rate increases and, despite efficiency improvements since 2010, CATSA's ability to purchase screening hours has declined over time, leading to passengers waiting longer to be screened.

CATSA has worked with Transport Canada (TC) on viable funding options to mitigate any negative impacts. On a yearly basis since 2015/16, the Government of Canada has provided one-year supplemental funding allocations to CATSA for the purpose of achieving a wait time service level where, on average, approximately 85% of all passengers wait 15 minutes or less to be screened at Class I airports on an annual basis.

Given its current reference levels and expected passenger growth and billing rate increases, CATSA's PBS Wait Time Impact Model (WTIM)<sup>1</sup> is forecasting longer passenger wait times in 2018/19 reflecting CATSA's declining purchasing power starting in 2018/19.

CATSA continues to work with TC on a long-term funding strategy to address future PBS funding levels.

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<sup>1</sup> CATSA's Wait Time Impact Model is a key strength, both in terms of explaining the impact of funding on wait times and for accurately predicting future funding requirements for the last four years. For more information on the WTIM, please see section 2.2.1.

### ***Enhanced NPS***

Budget 2014 provided three-year funding for CATSA's enhanced NPS program. This funding ended on March 31, 2017. Budget 2017 allocated CATSA with one-year funding for this program for fiscal year 2017/18. CATSA continues to work with TC on a long-term funding strategy for the enhanced NPS program.

### ***Transforming the Customer Experience at PBS: Deployment of CATSA Plus***

CATSA's success has been built in large part on a culture of innovation. CATSA is constantly seeking to improve the efficiency and effectiveness of its screening operations. CATSA has continued to invest significantly over time to increase efficiency while maintaining the effectiveness of its security screening operations, as demonstrated by continual annual increases in passenger throughput. CATSA is now in a position to bring together the results of previous trials into the CATSA Plus screening concept.

As a modernization initiative, the CATSA Plus concept invests in high-performance PBS equipment. It fully embraces SMART<sup>2</sup> security concepts and brings Canada on par with the most innovative airports in the world. CATSA Plus aims to improve overall screening and passenger flow through checkpoints by optimizing space provided to CATSA by airport authorities, all the while transforming the customer experience. Although this initiative alone will not solve the issue of wait times, CATSA Plus provides a better foundation upon which to build in the future.

Most checkpoints at major airports across the country have reached their existing space capacity and through the provision of additional space, CATSA will seek opportunities to better align with airport expansion plans and can help contribute to the overall industry goal of creating world class facilities and global travel hubs in Canada.

Starting in August 2016, CATSA began trialing a CATSA Plus line at the domestic checkpoint at Montreal-Trudeau International Airport to demonstrate this new screening concept. Given the success of the trial, the entire checkpoint is in the process of being converted to CATSA Plus.

In addition, on October 31, 2016, CATSA saw its first opportunity to showcase the full CATSA Plus concept in a brand new checkpoint at the new international terminal at the Calgary International Airport. By replacing standard screening lines with higher-performance ones, an improvement in passenger flow and customer experience is expected.

With the absence of new funding for CATSA Plus in Budget 2017, building on the success of CATSA plus deployments in 2016/17, CATSA has limited existing funding to carry out deployments at select checkpoints in Toronto, Montreal, and Vancouver in 2017/18.

CATSA will continue to focus on maintaining mutually beneficial relationships with its partners and stakeholders, with a particular emphasis on airport authorities and air carriers, while working to develop a long-term strategy with TC.

### ***Cost Recovery***

In October 2014, with TC's support, CATSA entered into a Supplemental Screening Trial Agreement with the Greater Toronto Airports Authority (GTAA), which allowed the GTAA to purchase additional screening services in the form of supplemental screening lines staffed with four screening officers using available

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<sup>2</sup> SMART Security is a joint initiative between the International Air Transport Association (IATA) and Airports Council International (ACI) with a vision where passengers proceed through security checkpoints with minimal inconvenience, security resources are allocated based on risk, and airport facilities are optimized, thus contributing toward an improved journey from curb to airside.

unfunded screening capacity. The GTAA expressed a desire to continue purchasing additional screening hours beyond March 31, 2017 when the agreement was set to expire. CATSA received TC's support and extended the Agreement to March 31, 2018.

Similar to the GTAA trial, and with TC's support, the Vancouver International Airport Authority was granted the authority to purchase supplemental PBS screening hours from CATSA in May 2017, in order to reduce the wait time impact of anticipated higher passenger volumes for 2017/18. Vancouver International Airport Authority began purchasing supplemental PBS screening hours from CATSA on June 26, 2017.

In addition to cost recovery trials, on July 28, 2015, the Government of Canada announced new regulations to allow airports that do not have access to security screening services from CATSA to obtain them on a cost-recovery basis. CATSA continues to work with TC and interested non designated airports in creating a feasible solution to implementing screening services on a cost recovery basis.

### ***Service Delivery Model***

CATSA operates under a third-party business model. The organization fulfills its mandate by contracting the delivery of screening services to private screening contractors. These contractors are responsible for employing the screening officer workforce and performing security screening operations at designated airports in Canada.

CATSA's original Airport Screening Services Agreements (ASSA) with screening contractors were set to expire on March 31, 2017. Following an analysis of renewal options, and based on the operational success of the current service delivery model, CATSA's refined its ASSA renewal strategy, and the Board of Directors ratified the recommendation that CATSA renew the four ASSA contracts for a five-year term.

A lower screening contractor billing rate was secured under three of the four ASSA contracts for a five-year term, starting April 1, 2017. While it is not sufficient to offset the pressures on wait times at screening checkpoints in Canadian airports, it is expected to result in a total savings of \$17.4M over five years, which has been re-invested in front-line screening contractor personnel positions.

## 1.0 CORPORATE PROFILE

CATSA is an agent Crown corporation, funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. Supported by screening contractors and their screening officer workforce, CATSA's mandated operations are expected to screen 65.6 million passengers and their belongings in 2017/18.

This Corporate Plan is a comprehensive five-year outlook that identifies how CATSA will meet its obligations as described in legislation. It has been updated from the 2016/17-2020/21 Corporate Plan to reflect changes in plans and priorities. The activities outlined in this document have been refined based on direction received by CATSA's senior management and Board of Directors. This five-year Plan is based on current conditions, which may evolve over time, given the complex operating and regulatory environment that CATSA works within. Accordingly, CATSA will adapt its strategy to the changing conditions.

### 1.1 CATSA'S MANDATE AND STRATEGIC PLANNING FRAMEWORK

<b>Mandate</b>	<p>In accordance with the <i>CATSA Act</i>, 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, in accordance with the standards set by TC.</p> <p>CATSA's mandate consists of four areas of aviation security:</p> <ul style="list-style-type: none"> <li>• <b>PBS:</b> the screening of passengers and their belongings prior to their entry to the secure area of an air terminal building;</li> <li>• <b>HBS:</b> the screening of passengers' checked (or hold) baggage to prevent the boarding of prohibited items;</li> <li>• <b>NPS:</b> the random screening of non-passengers accessing restricted areas at the highest risk airports; and</li> <li>• <b>RAIC:</b> the program, which uses iris and fingerprint biometric identifiers to allow non-passengers access to the restricted areas of airports.</li> </ul> <p>In addition to its mandated activities, CATSA has an agreement with TC 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.</p>
<b>Mission</b>	<p>CATSA's mission is to protect the public by securing critical elements of the air transportation system, as assigned by the Government of Canada.</p>

<b>Vision</b>	<p>CATSA's vision is to excel in air transport security. We will achieve our vision through:</p> <ul style="list-style-type: none"> <li>• <b>Our service:</b> We provide the best possible passenger experience and deliver value to Canadians with an optimal use of our resources;</li> <li>• <b>Our people:</b> We are engaged, committed and succeed through teamwork; and</li> <li>• <b>Our partnerships:</b> We work in collaboration with partners to generate mutual benefits and improvements.</li> </ul>
<b>Strategic Goals (2017/18-2021/22)</b>	<p style="text-align: center;"><b>Service Excellence</b>  <b>Long-Term, Sustainable, Operationally Effective Funding</b>  <b>Transforming the Customer Experience at PBS</b>  <b>Workplace Environment and Employee Engagement</b></p>
<b>Priority Activities (2017/18-2021/22)</b>	<p><b>Service Excellence</b></p> <ul style="list-style-type: none"> <li>• Security Effectiveness</li> <li>• Enhanced NPS</li> <li>• HBS Recapitalization</li> </ul> <p><b>Long-Term, Sustainable, Operationally Effective Funding</b></p> <ul style="list-style-type: none"> <li>• Working with Transport Canada on Long-term Funding Options</li> </ul> <p><b>Transforming the Customer Experience at PBS</b></p> <ul style="list-style-type: none"> <li>• Transforming the Customer Experience through Technology and Process Improvements</li> <li>• Customer Service Commitment to Passengers</li> </ul> <p><b>Workplace Environment and Employee Engagement</b></p> <ul style="list-style-type: none"> <li>• Flexible Work Environment</li> <li>• Culture of Recognition</li> <li>• Inclusive and Diverse Work Environment</li> </ul>
<b>Monitoring</b>	<ul style="list-style-type: none"> <li>• Performance metrics will be monitored through the Corporate Performance Measurement Dashboard</li> <li>• CATSA will prepare an annual review of initiatives and progress</li> <li>• Non-sensitive information will be publicly reported in CATSA's Annual Report</li> </ul>

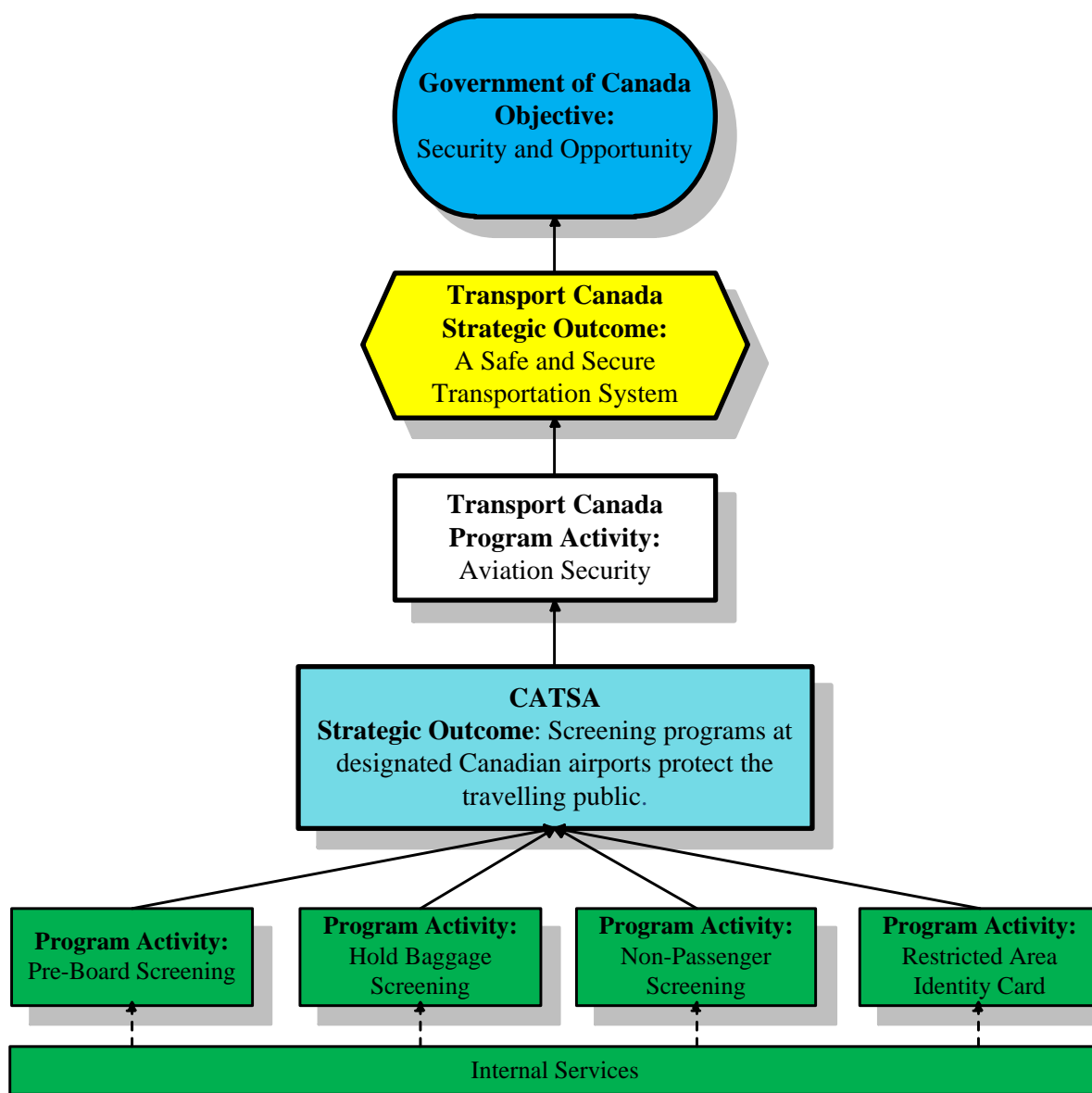
## 1.2 LEGISLATIVE AND REGULATORY FRAMEWORK

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 TC, Canada's designated national civil aviation security authority.

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, 2012*, Screening Security Measures and Standard Operating Procedures (SOPs).

## 1.3 PROGRAM ALIGNMENT ARCHITECTURE

In accordance with the Treasury Board Secretariat's *Policy on Management, Resources and Results Structures*, CATSA's Program Alignment Architecture (PAA)<sup>3</sup> and Strategic Outcome are aligned with the Government of Canada's Objective of "Security and Opportunity", in addition to TC's Strategic Outcome of a "Safe and Secure Transportation System". CATSA's PAA is presented in the illustration below.<sup>4</sup>



<sup>3</sup> In accordance with Treasury Board Secretariat's *Policy on Results*, CATSA is in the process of transitioning to Core Responsibilities. This will replace elements of the PAA while continuing to assist CATSA in setting its objectives.

<sup>4</sup> Please note that CATSA refers to Internal Services as Corporate Services.

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 Strategic Outcome.

## 1.4 GOVERNANCE

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### **Accountability Relationships**

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. CATSA reports to Parliament through the Minister of Transport, and works with TC to ensure regulatory compliance.

### **Board of Directors**

The Board is composed of one Chair and ten Directors. There are six positions that are public and 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 CATSA management.

The Board of Directors has a number of ongoing responsibilities, including the following:

- Ensuring the fulfillment of the corporation's mandate;
- Establishing the corporation's strategic direction through its annual corporate plan, and for safeguarding the resources of the corporation by approving annual reports, capital and operating budgets, and major new project proposals;
- Drafting, amending or repealing corporate by-laws (*FAA*, s.114);
- Approving CATSA corporate plans for recommendation to the Minister of Transport;
- Monitoring corporate performance;
- Approving the President and CEO's objectives for the year and evaluating his/her performance;
- Ensuring the principal risks of CATSA's business are identified and that appropriate systems to manage these risks have been implemented; and
- Reviewing and approving CATSA management's succession plan for senior management.

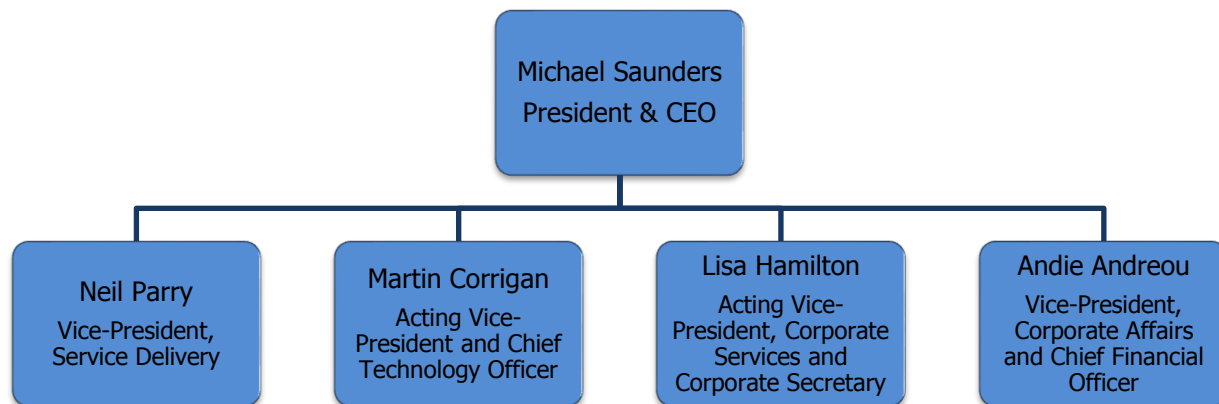
For more information on CATSA's Board of Directors, including Board Committees, please visit the [Board of Directors](#) section of CATSA's website.

### **CATSA's Senior Management Team**

Angus Watt's term as President and Chief Executive Officer (CEO) expired on January 3, 2017. As of September 30, 2017, CATSA is led on an interim basis by the President and CEO, Michael Saunders, until a permanent appointment is made by the Government of Canada. Mike Saunders is supported by a senior management team, as shown in the following organizational chart<sup>5</sup>.

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<sup>5</sup> The status of CATSA's senior management team is current to September 30, 2017.



For CATSA's senior management team profiles, please visit the [Executive Team](#) section of CATSA's website.

### External Audits

In 2015/16, the Office of the Auditor General (OAG) presented its final Special Examination report to CATSA, in which it concluded that CATSA provides reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. CATSA agreed with each of the OAG's seven recommendations and all have been successfully implemented with one exception, to be completed in mid 2018/19.

During the OAG Special Exam, CATSA identified to the OAG that its Learning Management System (LMS) had reached end-of-life cycle and was in the midst of planning the replacement. CATSA is currently in the process of transitioning to a new LMS, which is a complex system integration project with multiple systems dependencies. Data migration is currently in progress, and CATSA is working with their vendor to perform user acceptance testing on the data migration as well as application development testing. It is anticipated that this will be fully implemented in fiscal year 2018/19.

In 2015/16, the Office of the Commissioner of Official Languages (OCOL) conducted an audit to determine to what extent CATSA is fulfilling its language obligations to the travelling public. In its audit report, the OCOL presented fifteen recommendations. As a result, CATSA has been actively working to implement action plans to enhance the organization's official languages framework and service delivery. For more information on this audit, please see the OCOL [website](#).

## 1.5 THIRD-PARTY SCREENING MODEL

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CATSA operates under a third-party business model, fulfilling its mandate by contracting the delivery of screening services to private screening contractors who employ the screening officer workforce and perform screening operations at designated airports in Canada.

Since November 1, 2011, the following companies are responsible for delivering screening services in CATSA's four regions:

- Pacific Region: G4S Secure Solutions (Canada) Ltd.;
- Prairies Region: Garda Security Screening Inc.;
- Central Region: Garda Security Screening Inc.; and
- East Region: Securitas Transport Aviation Security Ltd.

Through five-year performance-based contracts (ASSAs), CATSA has the opportunity to improve airport screening management and to deliver more efficient, effective and consistent screening services that better balance high levels of security and excellence in customer service.

The original ASSAs were up for renewal as of March 31, 2017. Following an analysis of renewal options, and based on the operational success of the current service delivery model, CATSA refined its ASSA renewal strategy. The Board of Directors ratified the recommendation that CATSA renew the four ASSA contracts for a five-year term.

A lower screening contractor billing rate was secured under three of the four ASSA contracts for a five-year term. While it is not sufficient to offset the pressures on wait times at screening checkpoints in Canadian airports, it is expected to result in a total savings of \$17.4M over five years, which has been re-invested in front-line screening contractor personnel positions.

## 1.6 CATSA PERSONNEL

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As of March 31, 2017, the organization employs 439 indeterminate employees, including five executives – one CEO and four Vice-Presidents, all of whom are non-unionized. This is a reduction from 513 employees and six Vice-Presidents in 2012.

Of the current total, 146 positions exist in the regions and 293 positions are located at CATSA's headquarters in the National Capital Region.

### **Compensation Strategy**

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. As the group benefit plan sponsor, CATSA is responsible for establishing and modifying the plans and developing policy. It also sets the terms and conditions relating to eligibility, premiums, contributions, and benefits. Its benefit plan is administered by Sun Life Financial Canada.

In addition to a comprehensive benefits and compensation strategy, CATSA has a host of human resources policies and programs designed to support its workforce as they work to meet CATSA's mandate from the Government of Canada.

### **Pension Plans**

As part of the Government of Canada's commitment to aligning the pension plans of Crown corporations with key features of the *Public Service Pension Plan (PSPP)* in Budget 2013, CATSA reviewed the 50:50 cost-sharing principles for its pension plan. CATSA closed its defined benefit pension plan to new members as of June 30, 2013. A defined contribution pension plan was established for new hires as of July 1, 2013.

Given the circumstances around the closing of its defined benefit pension plan, CATSA believes its approach to achieving equitable cost sharing is fair and reasonable. As a result, CATSA will continue to seek a deviation from the 50:50 cost sharing directive.

### **Travel and Hospitality Policies**

In December 2015, as directed by the Governor in Council, the Board of Directors approved CATSA's updated *Travel, Hospitality, Conferences and Event Expenditures Policy*, which is in line with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures and consistent with CATSA's legal obligations.

CATSA's proactive disclosure of travel and hospitality expenses is aligned with the Treasury Board standard for expenditures incurred commencing January 1, 2016. CATSA's updated *Travel, Hospitality, Conference and Expenditures Policy* is available on its [website](#).

## 2.0 OPERATING ENVIRONMENT

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.

CATSA's operating environment is discussed with regard to the following key areas, to set the stage for its five-year plan, as discussed in Chapter 3:

- Key performance indicators;
- Environmental scan of strengths, weaknesses, opportunities and challenges; and
- Key risks to the organization over the planning period.

### 2.1 PERFORMANCE MEASUREMENT

Performance data on CATSA's operations is gathered and presented to management and the Board of Directors through the Corporate Performance Measurement Dashboard on a quarterly basis. The Dashboard serves as a management tool in setting the corporation's strategic direction, in managing the 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 CATSA 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.

#### 2.1.1 Pre-Board Screening Wait Time Service Level

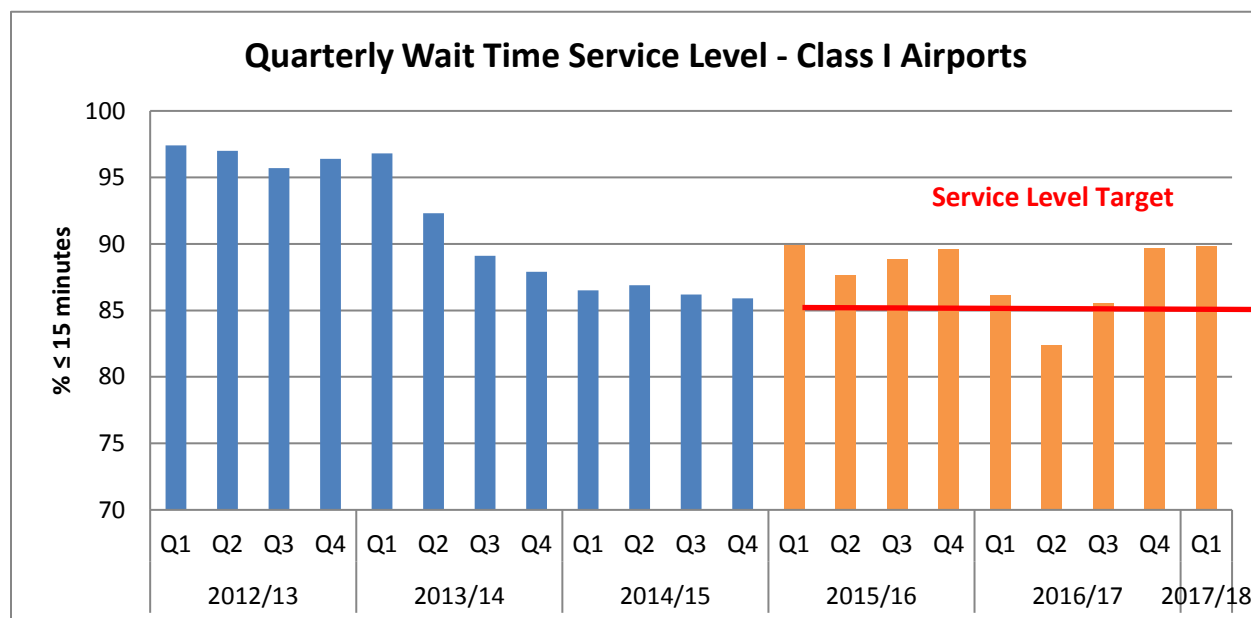
CATSA's PBS Wait Time Service Level is the percentage of passengers who wait a specified number of minutes or less to be screened at Class I airports.

Since Budget 2010, unfunded passenger growth and billing rate increases have led to passengers waiting longer to be screened. In 2012/13, 96% of passengers waited 15 minutes or less to be screened. By 2014/15, this was reduced to only 85% of passengers waiting 15 minutes or less to be screened. Recognizing the importance of this issue, CATSA and TC have been working together to create a long-term funding strategy to improve the wait time situation.

Since 2015/16, the Government of Canada has provided one-year supplemental funding allocations to CATSA for the purpose of achieving a wait time service level target where, on average, 85% of all passengers wait 15 minutes or less to be screened at Class I airports on an annual basis.

Budget 2017, in conjunction with an off-cycle allocation, provided CATSA with one-year supplemental funding totaling \$44.2M, to allow CATSA to target a wait time service level where, on average, approximately 85% of all passengers wait 15 minutes or less to be screened at Class I airports in 2017/18.

The percentage of passengers waiting 15 minutes or less is shown in the graph below, with the 2015/16, and 2016/17 wait time service level in orange.



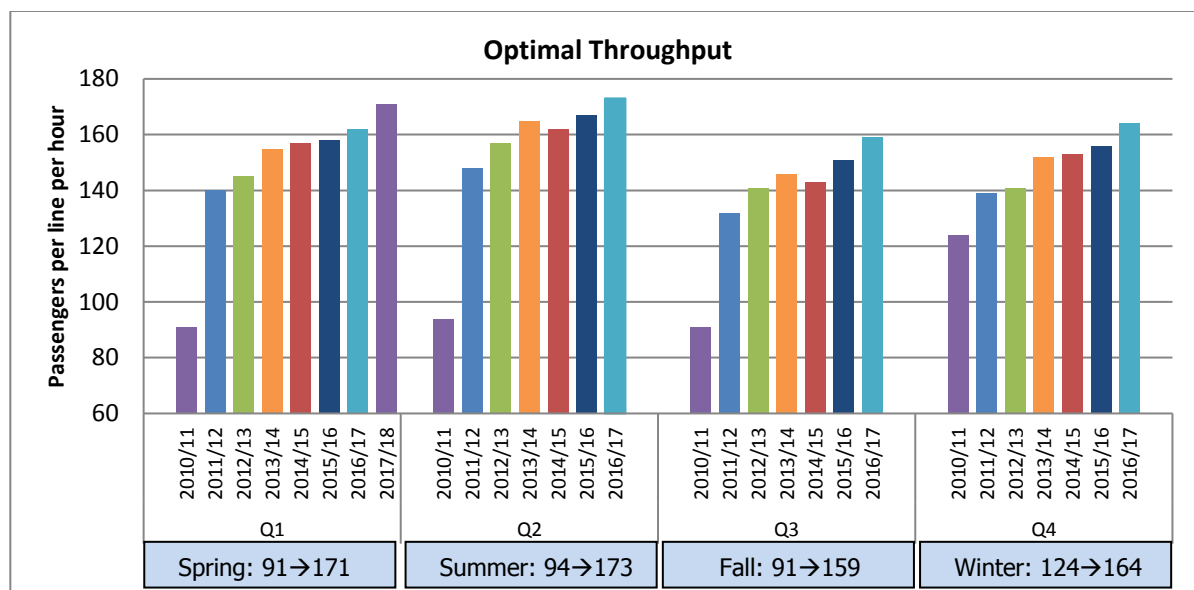
### 2.1.2 Security Effectiveness

CATSA's security effectiveness is measured by the ability of screening officers to identify and prevent threat items from entering the sterile area, while consistently applying standard operating procedures (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.

### 2.1.3 Passenger Throughput

Passenger throughput has been one of the primary PBS efficiency metrics for CATSA over the past ten years. This metric can be defined as the average of highest counts of persons screened at a screening line per hour when the line is busy. While the definition of passenger throughput generally remains consistent across international jurisdictions, there are significant differences in how this value is calculated.

CATSA's optimal throughput levels (which represent CATSA's capability under optimal circumstances and are typically used for international benchmarking) have increased significantly since the 2010 CATSA Review. This can be witnessed in the throughput increase from Q3 to Q4 2010/11 below. Operational trials for the evaluation of new processes, technologies and tools were developed and introduced to enhance screening operations.



Traffic seasonality impacts CATSA's throughput. Higher traffic volumes recorded during each summer period (Q2) combined with the reduction in the number of X-ray images due to reduced layers of clothing (e.g., coats, jackets), tend to increase throughput during the second quarter.

Gains in efficiency through process improvements and regulatory changes have allowed CATSA to substantially increase the number of passengers processed per hour. CATSA continues to strive to improve every aspect of its operations, wherever feasible.

### 2.1.4 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.

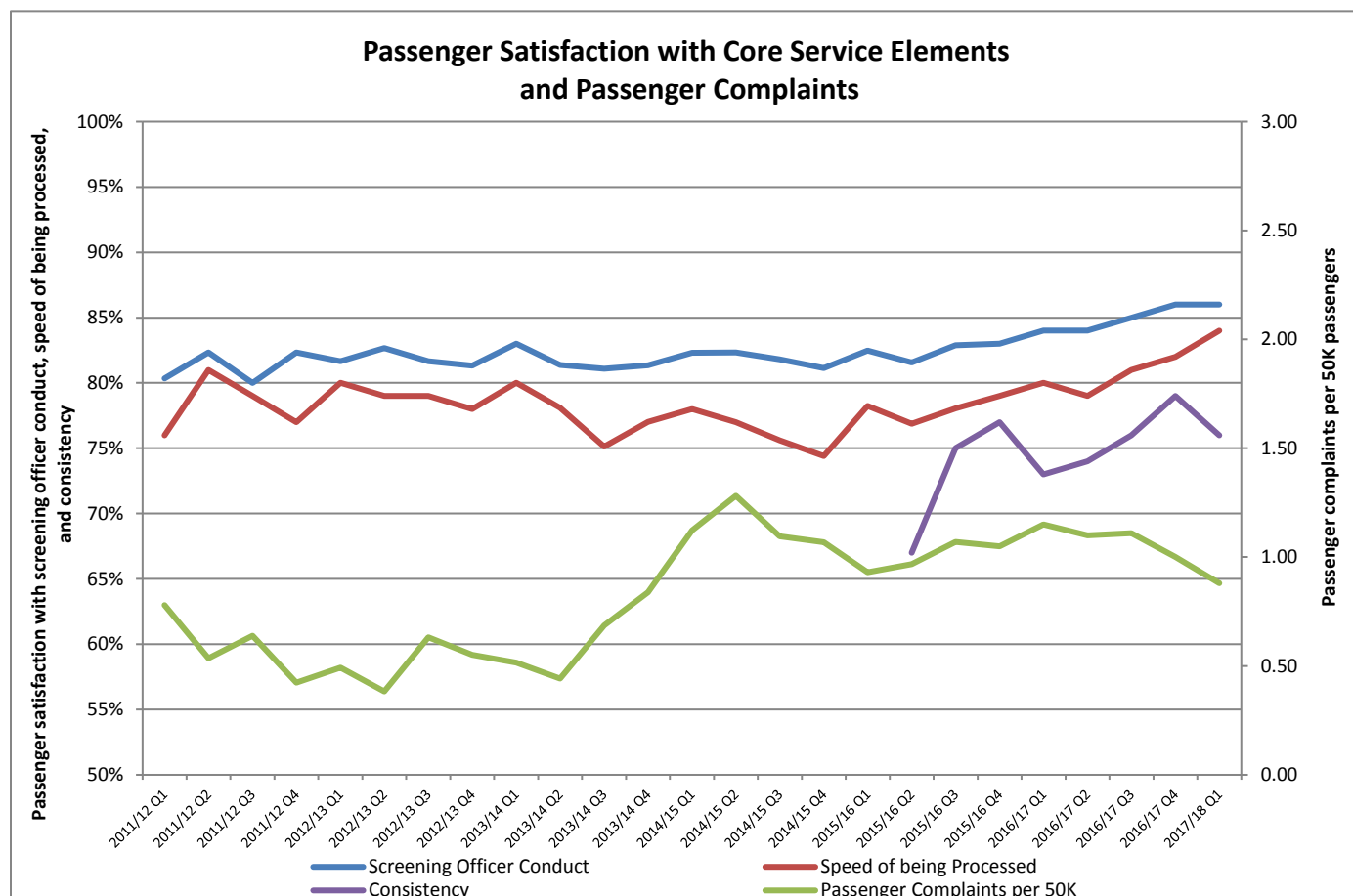
Overall, CATSA has observed a decrease in Screening Contractor Payments per passenger since 2011/12.

As part of CATSA's efforts to support PBS and mitigate pressures on wait times, the organization has looked into other mandated activities for possible efficiencies and reallocated these savings to PBS.

### 2.1.5 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.

CATSA has been able to maintain a relatively steady passenger satisfaction level since 2011, as demonstrated in the following chart.



Passenger satisfaction with screening officer conduct has been relatively steady since 2011. Passenger satisfaction with the speed of being processed decreased and the number of passenger complaints increased throughout 2013/14 as passenger wait times increased, as a result of CATSA's declining purchasing power. Once CATSA received supplemental funding for 2014/15, passenger satisfaction and complaints per 50,000 passengers subsequently levelled-off. This levelling-off may also be somewhat attributed to passengers becoming accustomed to slightly longer wait times than what CATSA had delivered in 2012/13 and years prior.

Overall, considering the number of passengers screened annually (62.5M passengers in 2016/17), the number of complaints CATSA receives is relatively small, trending at approximately one per 49,000 passengers. However, this represents an increase compared to 2013/14 and in prior fiscal years, when passenger complaints averaged 0.5 per 50,000 passengers. Nationally, wait times and delays, along with screening officer conduct, make up the vast majority of complaints.

CATSA takes passenger complaints very seriously. In order to further reduce passenger complaints, CATSA tracks the nature of complaints, and issues policy and procedure clarifications to screening officers when the organization notices reoccurring situations. Complaints regarding screening officer conduct are addressed through a formal performance management process where specific events and incidents, including unprofessional conduct are discussed and individual remediation measures are put in place.

Lastly, as can be seen in the previous graph, CATSA began tracking screening consistency in Q2 2015/16 and although CATSA only has a few quarters of data, there appears to be a positive trend with improved screening consistency.

## 2.2 ENVIRONMENTAL SCAN

An important element of the planning cycle is an analysis of CATSA's external and internal economic, business and security environment. The main focus of the environmental scan exercise is to identify external and internal determinants that may have impacts, both positive and negative, on CATSA's objectives and to prioritize these items, in order to inform the strategic planning process.

CATSA's Corporate Plan is influenced by the current environment:

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Managing Wait Times through Innovation</li> <li>Long-Term Innovation Vision – CATSA Plus</li> <li>A Proven Leader in Security Screening</li> </ul>	<ul style="list-style-type: none"> <li>Absence of a Long-Term Funding Strategy</li> </ul>
Opportunities	Challenges
<ul style="list-style-type: none"> <li>Excellent Stakeholder Relationships through the CATSA Plus Initiative</li> <li>Employee Morale and Engagement</li> <li>Office of the Commissioner of Official Languages Preliminary Audit Report</li> </ul>	<ul style="list-style-type: none"> <li>Evolving Security Environment</li> <li>Cost Recovery</li> </ul>

### *Strengths*

#### 2.2.1 Managing Wait Times through Innovation

To maximize efficiency, CATSA has processes and tools to optimally plan, schedule and monitor resource deployment to match traffic demand on a national basis. Through the allocation of Targeted Weekly Hours, CATSA contractually controls and determines how many hours the screening contractors can use to execute all of their commitments, while meeting performance expectations.

CATSA also employs its Screening Checkpoint Optimization Tool, designed to better manage the deployment of screening resources based on more accurate forecasts. This tool uses information from CATSA, its screening contractors, airport authorities and airlines. Once resources are deployed, CATSA continuously monitors and gathers efficiency information that is used to drive decision-making to achieve improved screening contractor scheduling.

With these processes and tools, CATSA is able to provide better checkpoint coverage and improved passenger experience while minimizing passenger wait times within its available resources. Additionally, this data allows CATSA to measure and optimize actual deployment over the course of the day, reducing inefficiency in its scheduling and operations.

Through data collected by the Boarding Pass Security System, CATSA is able to accurately determine passenger wait times at Class I airports. These wait times are published on CATSA's website and mobile application, allowing travellers to check current wait times prior to arriving at the airport.

CATSA does not have a mandated service level, however the organization recognizes that wait times have an impact on stakeholders, both in terms of the travelling public and the aviation industry. Within its budget, CATSA works diligently to maximize efficiencies, or the value per dollar spent, and to maintain as short as possible national average wait times.

#### *Wait Time Impact Model*

CATSA's Wait Time Impact Model (WTIM) is a key strength, both in terms of in explaining the impact of funding on wait times and for accurately predicting future funding requirements for the last four years. In order to evaluate the impact of various funding options on PBS wait time service levels, CATSA developed a Wait Time Impact Model that was shared with and validated by Transport Canada and involved extensive consultations with central agencies in 2013.

The WTIM incorporates elements of queuing theory and scheduling optimization techniques to estimate funding levels required to achieve given service levels at PBS. Notably, it has accurately predicted future funding requirements for the last four years. As a result, the model has increased CATSA's capacity with predictive analytics and proven CATSA's credibility with TC and Central Agencies with accurate data to facilitate and strengthen the argument for the need for sustainable funding. It is important to note the purchasing of supplemental screening hours by airports is incremental to what is generated by the model.

The model's accuracy can be seen below:

Wait Time Service Level (% of passengers waiting 15 minutes or less)				
	2013/14	2014/15	2015/16	2016/17
Forecasted	93%	85%	85%	85%
Actual	92%	86%	89% <sup>6</sup>	85.8%

Based on funding requirement projections produced by the WTIM, Budget 2017 and off-cycle funding provided CATSA with \$44.2M in one-time additional funding to target a wait time service level where, on average, 85% of all passengers wait 15 minutes or less to be screened at Class I airports on an annual basis.

### **2.2.2 - Long-term Innovation Vision**

CATSA has consistently demonstrated a strong culture of innovation and has adopted a strategic approach that relies on proven products that have been successfully trialed, certified, and have performed in a live environment, while obtaining value for money. CATSA has invested significantly over time to increase efficiency while maintaining security effectiveness, as demonstrated by continual annual increases in passenger throughput. Innovative technologies and processes have been trialed and implemented, including, most notably, the Boarding Pass Security System, video monitoring, networking of screening equipment, split lane systems, remote X-ray operators, the queue management system and parallel divest. Many of these innovations, which drive effectiveness, efficiency, and customer service, are

<sup>6</sup> A higher-than-forecasted service level was achieved in 2015/16 due to a reallocation of screening hours from NPS to PBS as airports were delayed in the completion of permanent NPS-Vehicle structures.

unique to Canada. Screening agency counterparts around the world consistently recognize CATSA for its screening innovations.

Through engagement with TC, international partners and screening technology vendors, CATSA has created its long-term vision, titled *PBS Roadmap*, which outlines the ten-year strategic plan to enhance security effectiveness the screening process and transform the customer experience.

#### *CATSA Plus*

CATSA is now in a position to leverage the successful results of past trials and bring them to the forefront of its operations in the form of the CATSA Plus concept, which is the first step in transforming the screening process.

The CATSA Plus initiative will invest in high-performance PBS equipment and transform the customer experience. It is also a modernization initiative, which fully embraces SMART Security<sup>7</sup> concepts and brings Canada on par with the most innovative airports in the world. CATSA Plus provides enhanced tools to improve overall screening and passenger flow through checkpoints. Although it alone will not solve the issue of wait times, CATSA Plus will provide greater checkpoint capacity through the optimization of space provided to CATSA by airport authorities.

At its core, CATSA Plus combines modern high-performance security screening lines with processes and innovative technologies designed to maintain security and improve the customer experience.

#### *Benefits of CATSA Plus lines*

The benefits of a full CATSA Plus line, which can be installed at large checkpoints with adequate space, include:

- Substantial improvement in X-ray processing capabilities through centralized image processing and motorized conveyors;
- Self-service features and minimal interactions with screening officers for passengers that do not generate an alarm during the screening process;
- Provide more time to divest for those who need it, while providing a bypass for those who do not, through parallel divesting;
- Increased security effectiveness with bin tracking and separation of items requiring search;
- Better utilization of resources through automation of some aspects of the screening process, such as automatically diverting bins requiring further screening to the reject lane and returning empty bins to the front of the line; and
- Enhanced customer service through partnerships with airports on checkpoint aesthetics and queue design enhancements.

The following image provides an overview of the components and features of a single full CATSA Plus line that could be installed at a large volume checkpoint and a view of multiple CATSA Plus lines deployed at large volume checkpoints.

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<sup>7</sup> SMART Security is a joint initiative between the International Air Transport Association (IATA) and Airports Council International (ACI) with a vision where passengers proceed through security checkpoints with minimal inconvenience, security resources are allocated based on risk, and airport facilities are optimized, thus contributing toward an improved journey from curb to airside.



Most checkpoints at major airports across the country have reached their existing space capacity. CATSA Plus will provide greater checkpoint capacity through the optimization of space provided to CATSA by airport authorities. CATSA will seek opportunities to better align with airport expansion plans and can help contribute to the overall industry goal of creating world class facilities and global travel hubs in Canada.

### **2.2.3 A Proven Leader in Security Screening**

Although not part of its core mandate, as a recognized leader in the security screening industry, CATSA receives requests from third parties (provincial, federal, and international entities both within and outside of the aviation security sector) wanting to learn more about technologies, screening officer training and procedures.

In addition to these requests, CATSA also shared a comprehensive package of procedures and training documentation on handling passengers with disabilities with the Canadian Transport Agency (CTA), which is examining possible regulatory changes. This information was proactively disclosed to demonstrate that CATSA's screening program is presently at an objectively higher standard to that of the current CTA regulations.

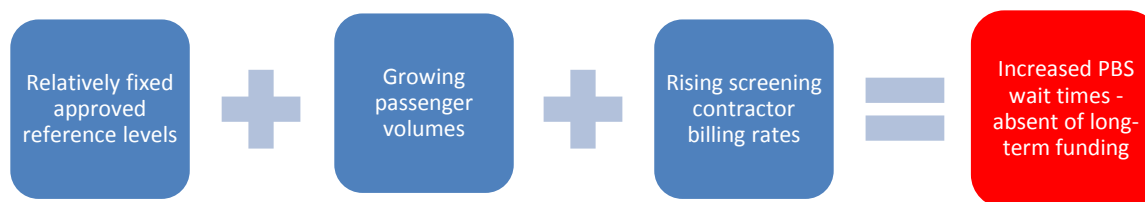
These requests demonstrate CATSA's advanced training expertise and CATSA as an established leader in security screening both in Canada and internationally. CATSA plans to continue to work with organizations to share its expertise.

## ***Weaknesses***

### **2.2.4 Absence of Long-term Funding Strategy**

Since Budget 2010, CATSA has not been funded to fully address rising screening contractor billing rates and growing passenger volumes. Though savings were achieved through the renewal of the ASSAs, going forward, these savings will not be sufficient enough to offset rising billing rates and passenger volumes. Therefore, CATSA's ability to purchase screening hours has and will continue to decline. Short of a long-term funding strategy, the current wait time service level where, on average, approximately 85% of all passengers wait 15 minutes or less to be screened at Class I airports on an annual basis, cannot be maintained.

The following schematic summarizes the pressures and drivers vis-à-vis increased PBS wait times:



### *CATSA's reference levels*

CATSA has been screening more travellers every year due to growing air traffic in Canada. As CATSA's funding is allocated through parliamentary appropriations, its budget is not directly linked to the Air Traveller Security Charge (ATSC). In other words, higher ATSC revenues from passenger growth do not result in a higher CATSA budget. At the same time, hourly billing rates rise on a yearly basis. Therefore, increasing passenger volumes and screening contractor hourly billing rates contribute to a need for annual increases in costs for screening hours purchased.

Until 2014/15, CATSA, working with TC, has been able to manage these growing pressures through the progressive implementation of efficiencies and improvements to its operations. After successive operational and organizational reviews, further significant gains in efficiency sufficient to offset the growing pressures are no longer feasible, although CATSA continues to constantly strive to improve every aspect of its operations. Since 2015/16, CATSA has been receiving one-year supplemental funding from the Government of Canada in order to continue screening operations while avoiding significant disruptions to the system.

Recognizing that there is no long-term government-set service level, CATSA will continue to operate within its approved reference levels and will continue to meet its security mandate. However, absent of a funding solution that takes into account increasing hourly billing rates and the expected growth in passenger volumes, air travellers will wait longer to be screened.

### *Passenger volumes*

The most recent forecasts show that over the planning period, enplaned passenger volumes<sup>8</sup> will rise in each of the next five years, with most of the growth occurring at Class I airports.

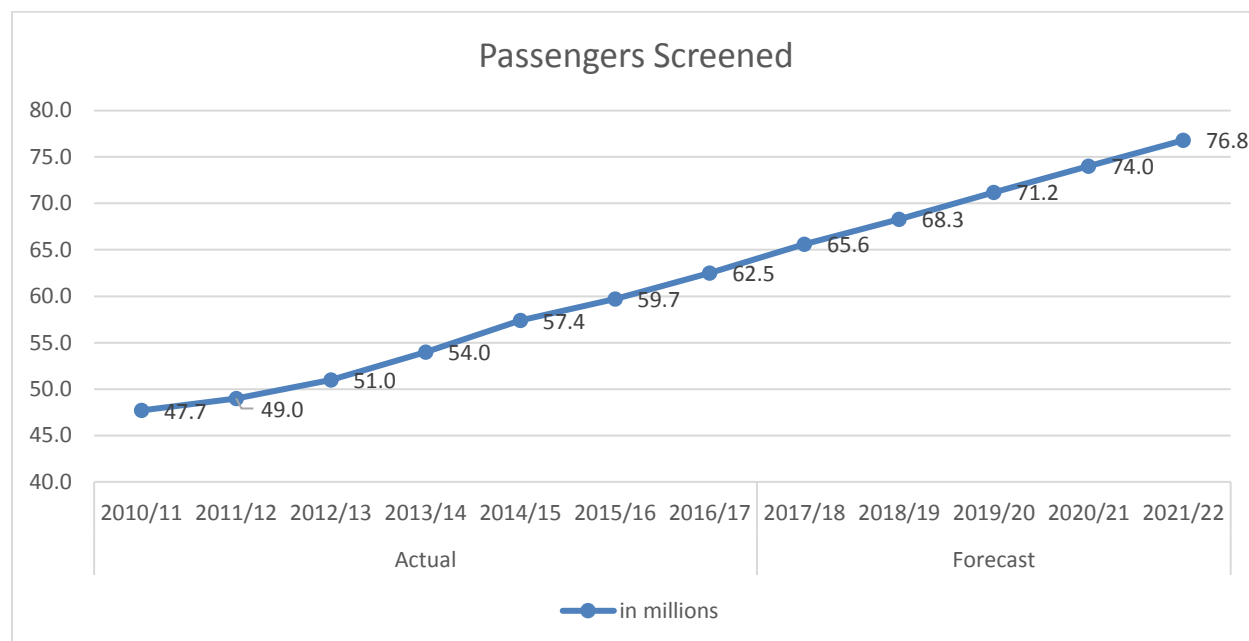
National Traffic Growth Forecast <sup>9</sup>						
	2017	2018	2019	2020	2021	2022
Enplaned Traffic Growth at Designated Airports (year-over-year)	5.3%	4.1%	4.2%	4.0%	3.8%	3.7%

Source: SNC Lavalin, Jan 2017

<sup>8</sup> Passenger traffic that embarks and takes off from an airport in Canada.

<sup>9</sup> Forecasts in previous years, until 2013, were performed by TC and have been discontinued. Since 2015, CATSA has engaged SNC Lavalin to provide passenger forecasts.

The increase in enplaned passenger volumes, differs from the increase in passenger volumes that require screening (“screened passenger volumes”), which has a more direct impact on CATSA’s operations<sup>10</sup>. In 2010/11, CATSA screened approximately 47.7 million passengers at designated airports. This figure grew to 57.4 million passengers in 2014/15. By the end of 2016/17, CATSA screened 62.5 million passengers. As of Q1 2017/18, CATSA has continued to see screened traffic grow: on a national level, screened traffic grew by 9.3% compared to Q1 2016/2017. This trend is expected to continue for the planning period and beyond, as reflected in the graph below, with passenger volumes for 2021/22 reaching an estimated total of 76.8 million.



While these figures give a national perspective, growth in passenger volumes does not occur uniformly at all airports, but rather largely on a regional and site-specific basis and without much warning. To support any changes in passenger volumes that may occur, CATSA closely examines its purchases of screening hours from airport to airport, region to region. Overall, CATSA manages its screening hours on a national level to maintain a similar level of service across the country, in support of its responsibility under the CATSA Act to provide consistency of service. CATSA also works closely with its industry partners on operational factors, such as flight schedules, available space and passenger arrival patterns, to help manage potential issues related to influxes of passengers.

#### *Screening contractor billing rates*

A key feature of the ASSAs, taking effect November 1, 2011, was the fixed Annual Rate Increase (ARI). Prior to this agreement, CATSA was responsible for covering the full amount of the increases which were solely dependent on the collective bargaining agreements between the screening contractor and the screening officers’ unions.

The introduction of fixed ARIs provided CATSA with a greater level of cost certainty over the longer-term planning horizon, and meant that any increases to the unit cost per hour beyond the ARI were absorbed by the screening contractor, not CATSA.

<sup>10</sup> Enplaned passenger volumes refers to all passengers boarding a plane. Screened passenger volumes refers to some connecting passengers that may not require screening at their connecting airport. Screened passenger volumes are included in the total enplaned passenger volumes.

CATSA's original ASSAs were set to expire on March 31, 2017. CATSA's objective for the renewal period was to achieve more value for a reduced cost. Screening Contractors submitted proposals for the five-year term including new base rates and ARIs, with the goal of limiting cost increases and generating savings.

Based on the renewal of the screening contracts, CATSA realized a gross savings of approximately \$34.6M over five years through a negotiated reduction to billing rates. Part of these savings was re-invested into the purchase of additional screening contractor supervision and management personnel. While it is not sufficient to offset the pressures on wait times at screening checkpoints in Canadian airports, after this re-investment, CATSA projects net savings to be \$17.4M over the five-year period.

As the billing rates that CATSA pays its screening contractors for each hour of screening have and will increase over the planning period, CATSA's purchasing power for screening hours has and will decrease over the years. In other words, with the same amount of money, and even without accounting for passenger growth, CATSA was not able to purchase the same number of hours year after year (i.e., declining purchasing power).

#### *Wait Time Service Level impact*

CATSA does not have a mandated service level, however wait times tend to be a top concern to airport operators and airlines, as these are closely aligned with revenues and customer experience in the competitive aviation industry.

Recognizing that wait times have an impact on stakeholders, both in terms of the travelling public and the aviation industry, CATSA works diligently within its budget to maximize efficiencies, the value per dollar spent, and to maintain wait times as short as possible.

Despite significant operational efficiencies achieved by CATSA over the last several years, CATSA's relatively constant PBS budget has decreasing purchasing power along with rising passenger volumes, resulting in increasing passenger wait times.

Furthering the industry's desire for improved wait times, the Greater Toronto Airports Authority (GTAA) and the Vancouver International Airport were granted the authority to purchase supplemental PBS screening hours from CATSA in order to reduce the wait time impact of anticipated higher passenger volumes. More information on these agreements can be found in section 2.2.9.

CATSA will continue to work with TC in exploring options for providing screening services on a cost recovery basis.

Recognizing that there is not a government-set service level, CATSA will operate within its approved reference levels and will continue to meet its security mandate. However, as noted, passenger numbers continue to increase while CATSA's purchasing power decreases. In the absence of additional funding for 2018/19 and beyond, passengers will continue to wait longer to be screened.

## *Opportunities*

### **2.2.5 Enhancing Stakeholder Relationships through the CATSA Plus Initiative**

The environment in which CATSA operates is highly integrated, with many different entities – airport authorities, air carriers, law enforcement agencies – assigned to specific security responsibilities. This integration requires a high degree of communication and coordination between CATSA and its security partners to ensure the effective and efficient screening of passengers and baggage, and also to ensure the continuous and efficient movement of the system. Delays at one airport can have ripple effects across the entire system.

Through the ongoing building and nurturing of stakeholder relationships, airport and airline officials have expressed strong support for the innovative and collaborative aspects of CATSA Plus. Various features of CATSA Plus were also presented at both national and international meetings to industry stakeholders and were extremely well-received.

Airport authorities see the concept as the way to increase screening capacity and the flow of passengers which will help in addressing the screening “bottleneck”. The issue of reaching maximum screening capacity with the currently deployed equipment and checkpoint footprints has emerged as one of the top priorities at Canada’s largest airports including Montreal-Trudeau, Toronto Pearson, Vancouver, and Calgary.

Starting in August 2016, CATSA began trialing one CATSA Plus screening line operational at the Montreal-Trudeau International Airport to demonstrate this new screening concept. Given the success of the trial, the entire checkpoint is in the process of being converted to a CATSA Plus line.

CATSA also worked to assist Calgary International Airport to augment its capacity through an airport expansion project, in order to accommodate future passenger growth. The new International terminal at the airport, which opened on October 31, 2016, provided CATSA with its first opportunity to demonstrate the full CATSA Plus concept in a brand new checkpoint, integrating all successful pilots and trials at one location with a large, spacious checkpoint. By replacing standard screening lines with higher-performance ones, an increase in passenger flow and improvement in the customer experience is expected.

Additional airports that have introduced the CATSA Plus concept include Toronto Pearson International Airport in February 2017 and Vancouver International Airport in June 2017.

The deployment of the CATSA Plus screening concept presents a unique opportunity for CATSA and airport authorities to collaborate on a mutual goal of enhancing the customer experience. CATSA will continue to work with airport authorities to assess their business needs to ensure that the maximum benefit is achieved.

To determine which CATSA Plus features can be deployed at each airport, CATSA will continue to actively collaborate with airport authorities. This collaboration has begun with CATSA contacting airports to assess their interest in the concept, and will continue to involve a review of the physical and operational characteristics of the current checkpoints to explore feasible checkpoint modification and re-configuration options. Following initial consultations with airport authorities, CATSA developed an implementation plan that is informed by airport feedback and driven by what is operationally feasible for CATSA, provided that airports make the required space available. Deployments are planned in a phased approach for each checkpoint to minimize operational disruptions and take into consideration future growth requirements.

As part of CATSA Plus deployment, CATSA will also collaborate with airports to enhance the physical appearance of the checkpoint and improve the flow of passengers through the checkpoint, based on airport interest and space availability. Airports will be able to adapt the look-and-feel of the checkpoint

environment and upgrade items like benches and repack tables to enhance the passenger experience. Going forward, given the proposed processing and customer experience benefits of the full CATSA Plus configuration, CATSA anticipates that airport authorities of major airports will continue to be motivated to work with CATSA and make the necessary investments to increase checkpoint size to accommodate CATSA Plus lines.

### **2.2.6 Employee Morale and Engagement**

A CATSA organizational survey was conducted in December 2015 to better understand the perspectives of employees on the organization's corporate culture and to identify practical and concrete opportunities to retain top performers and encourage employee development.

Overall, the findings of the 2015 survey reveal CATSA to be a healthy workplace environment. To address the survey's broader findings, three working groups were formed, each consisting of volunteer employees from across the organization and headed by a mentor Vice-President. These working groups focused on the areas of a flexible work environment, a culture of recognition, and an inclusive and diverse work environment.

After several months of work, the working groups made recommendations to CATSA senior management, and after extensive review and discussion, nearly all were approved in whole or in part and were expected to be incorporated into policy by the end of fiscal year 2017/18.

### **2.2.7 Office of the Commissioner of Official Languages Preliminary Audit Report**

Under Part IV of the *Official Languages Act*, CATSA is required to provide screening services in both official languages at designated bilingual airports. In other words, when screening passengers, their carry-on baggage and personal belongings, CATSA must provide communication and services to the travelling public in both official languages at airports with one million or more passengers and at airports where there is a significant demand for services in the minority language.

The Office of the Commissioner of Official Languages' *Audit of the Delivery of Bilingual Services to the Travelling Public by CATSA at Screening Checkpoints in Airports with Language Obligations* began in 2015/16 and focused on screening services delivered at Class I airports. OCOL presented its preliminary audit report to CATSA in October 2016. In this report, OCOL made fifteen recommendations to enhance CATSA's official languages framework and service delivery. CATSA reviewed these recommendations and is actively working to implement action plans to enhance CATSA's official languages framework and service delivery.

## **Challenges**

### **2.2.8 Evolving Security Environment**

Since its inception after the events of September 11, 2001, CATSA has experienced ongoing change to keep pace with new threats, evolving technologies, and improved international security standards. What has not changed is the importance of CATSA's role in ensuring the security of air travellers in Canada.

The seriousness of threats to Canada's civil aviation system is such that CATSA has in the past, and may in the future, be required to respond instantly to unplanned events and sudden regulatory amendments. These threats and changes can have a significant impact on CATSA's operations, including higher costs and stretched resources as a result of responding to these changes.

The U.S. Department of Homeland Security's enhanced security measures, which came into effect on July 19, 2017, are an example of CATSA responding to sudden regulatory changes. Passengers will continue to be randomly selected for additional screening, which will now include screening of their electronic devices. If selected, passengers will be asked to remove any covers or protective cases from their electronic devices before inspection, and may be asked to show that they can be powered up. While these enhanced measures are in place, wait time service levels at transborder checkpoints across the country may be impacted, particularly during peak season, as a result of staffing requirements.

The introduction of these enhanced measures serves to illustrate the challenges of meeting a service level standard in a constantly evolving security environment and specifically, it highlights the importance of ensuring CATSA has the capacity to quickly increase its resources to satisfy new regulatory amendments.

## **2.2.9 Cost Recovery**

### *Greater Toronto Airports Authority and Vancouver International Airport Authority*

After receiving confirmation from TC that it supports a pilot project to recover costs from the GTAA for enhanced screening services at the Toronto Pearson International Airport, CATSA has been conducting a trial whereby the GTAA is able to purchase additional screening capacity from CATSA on a cost recovery basis until March 31, 2017. The GTAA expressed a desire to continue purchasing additional screening hours past March 31, 2017. CATSA received TC's support to extend the Agreement to March 31, 2018.

In addition, with TC's support, in May 2017, the Vancouver International Airport Authority was granted the authority to purchase supplemental PBS screening hours from CATSA in order to reduce the wait time impact of anticipated higher passenger volumes for 2017/18. Vancouver International Airport Authority began purchasing supplemental PBS screening hours from CATSA as a pilot project on June 26, 2017.

CATSA will continue to work with TC in exploring options for providing screening services on a cost-recovery basis.

### *Non-Designated Airports*

On July 28, 2015, the Government of Canada announced new regulations to allow airports that do not have access to security screening services from CATSA to obtain them on a cost-recovery basis.

On a broader scope, balancing the varied approaches to cost recovery may prove to be a challenge to CATSA in the longer term, and as the scope of activities expands, it may put pressure on CATSA's systems and already limited resources. Before cost recovery can be implemented on a long-term basis, a number of key legal and policy issues will first need to be resolved.

While TC is the lead on cost recovery from a policy perspective, it will be a significant undertaking for all parties involved, including, but not limited to, the following:

- Potential statutory and/or regulatory amendments by TC;
- Implementation of substantial management changes to oversee a new business line at CATSA; and
- Assessments of financial implications, management systems and practices by CATSA.

At this time, the impact of these changes to CATSA is unknown and presents a challenge to the organization going forward. Should the scope of CATSA's cost recovery activities continue to increase, CATSA will examine the impact and will likely require an increase in its reduced corporate services resources.

### *Private and Non-Commercial Flights*

Recently, select airports have been allowing private and non-commercial flights to depart from their Air Terminal Buildings. As per the *Canadian Aviation Security Regulations, 2012*, CATSA is required to screen any passenger with a document of entitlement, which includes “a ticket or any other document accepted by an air carrier that confirms the status of the person to whom it was issued as a passenger on a flight and that is approved by the operator of the aerodrome.” As such, CATSA is required to provide security screening services for passengers on these flights. Passengers on private and non-commercial flights have not been subject to the ATSC, and when these flights depart from other areas of the airport apron, the operators have generally hired a private security company to directly screen passengers.

CATSA’s Wait Time Impact Model is based on historical passenger volumes and typical growth forecasts, which do not include unforeseen changes to operations such as private and non-commercial flight screening. Therefore, it is not able to forecast the impact of these added passenger volumes on wait times. As such, these flights, if accommodated, could have a negative impact on passenger wait times across the country, particularly at large Class I airports.

In order to mitigate the impact on CATSA’s operations, CATSA is exploring alternative ways of handling this unforeseen increase in passenger volumes.

## **2.3 RISK FRAMEWORK**

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Risk management at CATSA is a formalized, systematic approach to determine the best course of action during times of uncertainty by identifying, assessing, understanding, acting on and communicating risk throughout the organization. This approach contributes to risk-informed decision-making, which enables CATSA to effectively manage its risk and capitalize on opportunities.

CATSA’s risk framework is guided by the corporate *Risk Management Policy* which outlines CATSA’s intent, approach and principles to practising risk management as well as identifies ownership and high level accountability for risk management activities across the organization. The policy further defines CATSA’s risk attitude which may be described as both conservative and flexible. The organization generally focuses effort more heavily on the active management of medium and high risks (key risks).

CATSA’s Risk Management Program supports the integration of a common risk management approach into decision-making processes at all levels across the organization. Key risks associated with its corporate and business or operating activities are identified and assessed based on established likelihood and impact criteria. This enables a consistent approach to risk assessments both at the corporate, operating and project level. Risks are evaluated against the established risk attitude and, where appropriate, formal mitigation strategies and treatment plans are developed, implemented and tracked. Key corporate risks are monitored by the SMC and reported to the Board of Directors on a quarterly basis.

For information on CATSA’s approach to risk management please refer the information contained in [CATSA's 2017 Annual Report](#). To view how CATSA’s Corporate Governance structure works with the Risk Management Program, please refer to the [Board of Directors Committee Terms of Reference](#).

### **2.3.1 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 TC and implemented by CATSA. In addition to intelligence-related threat information overseen by TC 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. Management and the Board of Directors pay closest attention to those risks related to the effectiveness of screening, as security is CATSA's top priority. The risk information contained in CATSA's 2017/18 CRP was used to inform this Corporate Plan.

### **2.3.2 Overview of Key Risks**

CATSA's key risks are those that have the greatest potential to impact the achievement of the corporation's objectives and outcomes. Monitored and reviewed by CATSA's senior management and Board of Directors on a quarterly basis, the organization's current key risks can be identified as follows:

#### *Level of service delivery<sup>11</sup>*

CATSA faces a variety of external challenges and pressures such as increases in screening contractor billing rates and rising passenger volumes. As a result, its ability to purchase screening hours has declined in the last two years. Consequently, passenger wait times have increased in recent years.

Budget 2017 and additional off-cycle funding have provided CATSA with one year additional funding of \$44.2M for PBS. This funding will allow the organization to strive to maintain stable PBS wait-times where, on average, approximately 85% of all passengers wait 15 minutes or less to be screened at Class I airports on an annual basis. CATSA is currently in discussions with Central Agencies and TC in order to secure long-term funding for 2018/19 and beyond.

#### *Stakeholder engagement*

CATSA engages in a number of collaborative initiatives with domestic and international stakeholders, focused on a variety of topics, including securing a long term funding strategy in order for CATSA to effectively carry out its mandate.

Stakeholders have raised concerns about CATSA's operations relating to passenger wait times, screening operations, and customer service. There is a risk that these concerns may dampen CATSA's stakeholder relationships, however the organization continues to monitor ongoing stakeholder reactions, and work with TC on a long-term, sustainable and operationally effective funding strategy that would help to mitigate some of these challenges.

#### *Detection capability*

CATSA's screening activities include detecting and intercepting all forms of prohibited items. CATSA continually monitors its ability to detect these prohibited items and its effectiveness in doing so to ensure that threat items are not introduced into the restricted or sterile areas of an airport. As no system is 100% effective, there is a risk that CATSA may not detect all high risk threat items which may result in substantial consequences to the civil aviation system.

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<sup>11</sup> The risk is at high for 2018/19-2021/22 as the current approved level of funding is at Budget 2010 levels. Additional funding could significantly reduce this risk.

CATSA has a number of controls in place to reduce the likelihood of realizing this risk. In addition, the organization closely monitors its screening effectiveness performance.

*Level of corporate capacity to provide corporate support services*

Since the implementation of its Deficit Reduction Action Plan savings proposals in 2015, CATSA has been operating with a streamlined corporate structure; however, the demand for these services has remained steady and has increased on occasion. While the organization will always provide corporate services to ensure mandatory requirements are met, there is a risk that the current corporate structure may be inadequate to support the delivery of the current support services workload.

*Employee recruitment and Employee retention and Healthy Workplace*

In the context of ongoing fiscal constraint, there are risks that CATSA's corporate strategies may impede the organization's ability to recruit and retain talent and to maintain a healthy workplace.

To mitigate these risks, CATSA has undertaken action plans to respond to findings from the 2015 employee engagement survey, promote enrolment in professional development training, and refresh CATSA's talent management assessments. In addition, an employee survey will be conducted in 2017/18 and the organization plans to conduct a review of the Human Resources Performance Program in 2018/19. Senior management continues to monitor these risks closely.

*Illegal labour disruptions*

CATSA outsources its services to security screening contractors who rely on a unionized screening officer workforce to deliver screening services. CATSA monitors for signs of potential labour unrest – particularly illegal labour action – that may occur at airports as a result of union activity, and has a variety of plans and procedures in place to respond to labour unrest.

Continued vigilance will be an ongoing priority for the organization. Should such a situation arise over the course of the planning period, CATSA will work closely with its screening contractors, TC and the industry to minimize the impact to the travelling public.

*Period of interim senior leadership*

A new Chairperson was appointed in September 2017. The current CEO has been appointed by an order in council for a one-year term until April 3, 2018 or until a new chief executive officer is appointed. The process to appoint a new CEO, which is led by the Government of Canada, is underway.

It may be more challenging for the organization to pursue longer term strategies and objectives during this period of interim senior leadership. While CATSA does have some strategic momentum and its existing initiatives will continue to be implemented, the organization will be facing a period of corporate uncertainty at the strategic level.

## 3.0 STRATEGIC DIRECTION

CATSA's main strategic priorities for 2017/18 to 2021/22 are the following:

- Service Excellence;
- Long-term, Sustainable, Operationally Effective Funding;
- Transforming the Customer Experience at PBS; and
- Workplace Environment and Employee Engagement.

To monitor progress on meeting these priorities, updates will be provided by each program area and reported through a regular tracking process and the Year-End Review process. Continued use of internal audits will ensure that CATSA's performance is assessed by a neutral party. As per past practice, non-sensitive performance will be reported in CATSA's Annual Report.

### 3.1 SERVICE EXCELLENCE

#### 3.1.1 Security Effectiveness

As security is CATSA's top priority, the organization regularly invests in initiatives to achieve continuous and sustained performance improvements. The success of CATSA's ongoing commitment of improving the effectiveness of its screening operations is measured through security effectiveness and security screening compliance performance metrics. Given the sensitivity of this content, further details cannot be included in a public document.

#### 3.1.2 Enhanced NPS

In 2017/18, CATSA received one-year additional funding from Budget 2017, which allowed the organization to continue delivering the enhanced NPS program for 2017/18. This includes screening non-passengers and vehicles that have access to the wider commercial apron of the airport.

CATSA continues to work with TC on a longer term funding strategy for 2018/19 and beyond.

#### 3.1.3 HBS Recapitalization

In Budget 2011, CATSA was allocated capital funding to begin a ten-year HBS life-cycle management program through the deployment of Computed Tomography technology while maintaining equivalency with key international partners. The HBS Recapitalization Program ensures that CATSA migrates from a five-level screening process to a three-level process, while introducing efficiencies and eliminates the need to re-screen checked baggage arriving from Canada, thereby streamlining the process for passengers connecting through a U.S. hub. The Program encompasses 32 airports and is comprised of 45 projects. Initial deployments focused on Canadian airports with U.S. pre-clearance facilities in order to support the joint Canada-U.S. *Beyond the Border* declaration.

While CATSA works closely with airport authorities and other vendors throughout the duration of these projects, CATSA may face some challenges such as delays in procurement and delivery of equipment, along with delays with airport expansions and the design and layout of new areas, which are outside of CATSA's control. CATSA's project timelines and costs may be subsequently impacted. CATSA will continue to work with the airports to readjust the deployment schedule, and with TC and Central Agencies to ensure that financial resources are properly reallocated in line with the newly adjusted schedule.

## 3.2 LONG-TERM, SUSTAINABLE, OPERATIONALLY EFFECTIVE FUNDING

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### 3.2.1 Working with Transport Canada on Long-term Funding Options

Operating funding pressures continue to be a challenge for CATSA in the longer term.

Budget 2017, in conjunction with an off-cycle allocation, provided CATSA with one-year supplemental funding totaling \$44.2M to allow CATSA to target a wait time service level where, on average, approximately 85% of all passengers wait 15 minutes or less to be screened at Class I airports on an annual basis. Absent the off-cycle funding, CATSA's Wait Time Impact Model (WTIM) predicted that only 31% of passengers would wait 15 minutes or less at Class I airports.

The WTIM also demonstrates that without additional funding, not only will passengers waiting 15 minutes or less to be screened be fewer, the percentage of those waiting more than 60 minutes will increase exponentially. CATSA's current reference levels indicate that, in 2018/19, approximately 5% of passengers are forecasted to wait 15 minutes or less. In other words, 95% of passengers will wait more than 15 minutes to be screened. Moreover, more than 80% of passengers will wait over 60 minutes to be screened. In addition, the expiration of NPS funding on April 1, 2018 could have an impact on PBS wait time service levels.

TC and CATSA are working together on a long-term, operationally effective funding strategy. If a long-term solution is established, it would provide convenience to travellers in terms of improved service levels, enhance airport competitiveness, and increase the public's confidence in the aviation system. Furthermore, it would provide additional stability to the system and make Canada's aviation industry more globally competitive.

#### *Cost Recovery*

In October 2014, with TC's support, CATSA entered into a Supplemental Screening Trial Agreement with the Greater Toronto Airports Authority (GTAA), which allowed the GTAA to purchase additional screening capacity in the form of supplemental screening lines staffed with four screening officers. The GTAA-funded screening lines would be over and above CATSA's own allocation.

Following CATSA's receipt of TC's support to extend the Agreement, CATSA and GTAA entered into an extension through March 31, 2018. CATSA and GTAA will reassess whether they wish to continue the agreement into CATSA's fiscal year 2018/19 in Q3 of this fiscal year, and engage with TC accordingly.

In addition, with TC's support, the Vancouver International Airport Authority was granted the authority to purchase supplemental PBS screening hours from CATSA in May 2017, in order to reduce the wait time impact of anticipated higher passenger volumes for 2017/18. Vancouver International Airport Authority began purchasing supplemental PBS screening hours from CATSA as a pilot project on June 26, 2017.

CATSA will continue to work with TC in exploring options for providing screening services on a cost-recovery basis.

### 3.3 TRANSFORMING THE CUSTOMER EXPERIENCE AT PBS

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#### 3.3.1 Transforming the Customer Experience through Technology and Process Improvements

CATSA Plus is an opportunity to transform the passenger experience through tangible checkpoint innovations that will enhance customer service and improve screening effectiveness.

The CATSA Plus line that has been operational since August 2016 at the Montreal-Trudeau International Airport has shown promising passenger experience results. In addition, the new international facilities at the Calgary International Airport present a brand new occasion for CATSA to work collaboratively with the airport authority on a long-term project that facilitates passenger travel through the deployment of CATSA Plus.

Passenger surveys conducted by CATSA indicate that among those travelling through a CATSA Plus line for the first time, 60% of passengers in Montreal and 67% of passengers in Calgary said their experience was better than the last time they went through security screening in Canada.

CATSA also introduced the CATSA Plus concept at Toronto Pearson International Airport in February 2017 and Vancouver International Airport in June 2017. The organization is in the process of collecting data on passenger satisfaction for the newly deployed CATSA Plus lines in Toronto and Vancouver. As with passenger experience improvements observed with the CATSA Plus line in Montreal, CATSA expects that once the new checkpoints are well established, the passenger experience will be further improved.

It should be noted that the CATSA Plus concept was designed to improve the passenger experience while enhancing security effectiveness. Nonetheless, in both Montreal and Calgary, there has been an increase in the number of passengers screened per hour compared to a standard line. CATSA will continue to collect data and further refine CATSA Plus procedures and staffing plans to maximize gains. CATSA will also continue to periodically measure customer service and implement initiatives to further enhance the passenger experience.

While the Government of Canada did not provide new funding for CATSA Plus in Budget 2017, building on the success of CATSA plus deployments in 2016/17, CATSA has existing funding to carry out planned deployments at select checkpoints in Toronto, Montreal, and Vancouver in 2017/18. Data collected from multiple checkpoints and airports, over the course of one calendar year, will allow CATSA to best assess impacts of traffic seasonality, including holiday peak periods.

Ultimately, subject to available funding, CATSA's goal is to have all airports participate in this CATSA Plus screening concept initiative in order for as many passengers as possible to reap the benefits. The completion of the national deployment will be subject to available funding. To this end, CATSA is working closely with TC to explore options related to this initiative.

#### *Long-Term Strategy*

Over the planning period, as technologies mature, CATSA will monitor their global development and endeavor to trial new equipment and processes and integrate them into its operations over time. As these process changes are expected to be evolutionary as opposed to revolutionary, and given the flexible, modular, and scalable nature of CATSA Plus lines, CATSA will be able to incorporate next-generation screening equipment and processes into the CATSA Plus concept. For example, current X-rays can be seamlessly replaced with next-generation X-rays when they become available.

CATSA will also continue to prepare for the future and lifecycle management of key pieces of PBS technology by considering the testing of next-generation computed tomography PBS X-ray equipment. As the final phase of transformation, next-generation FBS equipment will be evaluated and planned for deployment, which aims to transform the screening process.

### **3.3.2 Customer Service Commitment to Passengers**

CATSA is committed to providing the best customer service possible to passengers. Through tangible innovations and technology improvements with the CATSA Plus initiative, CATSA expects that passengers will have a more pleasant screening experience. At the same time, CATSA will continue focusing on creating positive screening officer interactions and improving screening officer professionalism.

#### **Screening officer professionalism**

CATSA expects that screening officers maintain the trust and confidence of the travelling public by providing an excellent level of customer service from the beginning of the screening process to the end, treating all persons with care, courtesy and respect as part of a positive and secure air travel experience.

As part of the National Training and Certification Program, screening officer recruits are provided with the knowledge and skills needed to perform screening functions with an emphasis on customer focused security. As part of the recurrent learning program, screening officers receive training specifically designed to focus on customer service that teach screening officers to view air travellers as 'customers' who expect and deserve a screening experience that is effective, efficient and hassle-free.

CATSA's SOPs include standards of professional conduct for screening officers to exhibit when dealing with travellers. Professional conduct includes appearance as well as behaviours and actions. The standards apply when screening officers are on-duty, as well as off-duty but wearing the CATSA uniform (such as on their way to work, or on break in public). These standards reflect CATSA's vision for quality security screening with a committed, professional and engaged screening officer workforce.

To that end, data shows that passengers are, in general, fairly pleased with their screening experience.

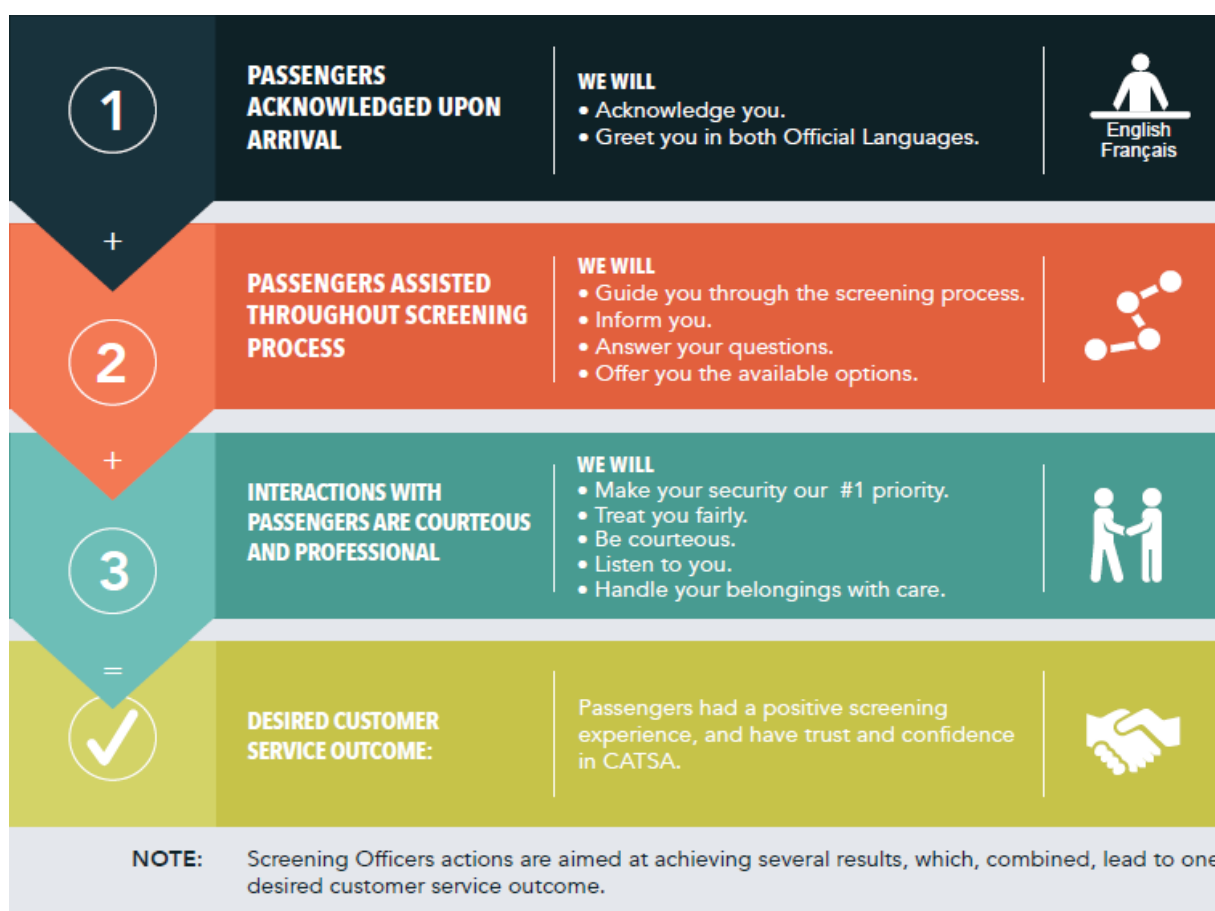
In order to reduce passenger complaints, CATSA tracks the nature of complaints and issues policy and procedure clarifications to screening officers when the organization notices reoccurring situations. On an individual level, complaints regarding screening officer conduct are addressed through a formal performance management process where specific events and incidents, including unprofessional conduct are discussed and remediation measures are put in place.

CATSA will continue to develop and promote customer service with the screening officer workforce. CATSA and its screening contractors will continue to educate its screening officers that customer service is reciprocal - displaying more professionalism will lead to a higher level of respect from passengers.

## Implementing CATSA's Customer Service Commitment to Passengers

In 2016/17, CATSA developed a "Customer Service Commitment to Passengers" framework, targeting both screening officers and passengers, that focuses on achieving one desired outcome: for passengers to feel that they have had a positive screening experience and have greater trust and confidence in CATSA.

For 2017/18, the implementation of the Customer Service Commitment is a priority for CATSA. Pre-board screening checkpoint procedures have been reviewed and revised in alignment with the Commitment. For screening officers, CATSA has integrated the Customer Service Commitment into the Screening Officer Foundations course and developed a Recurrent Learning Program module. The Commitment was also the focus of the summer Operations Briefing delivered to screening officers. These activities have been supported by the development and distribution of visual communication products at the checkpoint, including pins for screening officers and floor decals with the slogan "Your security 1st".



All of CATSA's public-facing messaging (including website, social media content, and client satisfaction scripts) has been reviewed for alignment with the Commitment and specific content has been developed for the web and social media. Acknowledging that courtesy is a two-way street, signage noting that unruly passenger behaviour will not be tolerated was renewed and distributed to airports.

Going forward, the Customer Service Commitment to Passengers will continue to frame CATSA's efforts to achieve excellence in service delivery and serve as a touchstone for communications with stakeholders and the travelling public. The success of the Commitment will be measured through CATSA's ongoing public opinion research.

### 3.4 WORKPLACE ENVIRONMENT AND EMPLOYEE ENGAGEMENT

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The implementation of CATSA's strategic initiatives is largely dependent on cultivating an engaged workforce and optimizing CATSA's ability to recruit and retain talent. A CATSA culture survey, conducted in December 2015, proved valuable to better understanding CATSA employees' perspectives on CATSA's corporate culture.

To build on the key themes arising from the results of the culture survey, three employee working groups were formed to identify practical and concrete opportunities for refinement of human resources strategies in targeted areas: a flexible working environment, a culture of recognition, and an inclusive and diverse work environment.

As a result, CATSA amended existing policies to introduce more flexibility in the administration and implementation of leave benefits and to offer employees greater access to developmental opportunities. CATSA is in the process of amending policies related to work arrangements before the end of fiscal year 2017/18.

CATSA has identified that a strategic investment in the development of its people leaders will also support not only the success of the above priorities but also serve to promote employee engagement and retention. A needs analysis conducted in 2017 has led to a framework for CATSA's Management Development Program with the launch of training to the first cohort of managers by early 2018/19.

CATSA is also focused on ensuring that its compensation and benefits are in line with the relevant market median. By obtaining a third-party benchmarking exercise, CATSA was able to identify corrections in its salary structure which will be implemented at the end of 2017. Ongoing efforts will be focused on enhancing existing HR strategies in the areas of performance management and short and long-term retention initiatives.

## 4.0 FINANCIAL ANALYSIS

As outlined in Chapter 1, CATSA is funded by parliamentary appropriations and accountable to Parliament through the Minister of Transport. As a consequence, 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 financial results and budget for 2016/17, and its financial plan for the five-year period.

### 4.1 FUNDING OVERVIEW

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#### **2017/18 at a Glance**

CATSA's budget for 2017/18 is in the amount of \$762.9M which consists of \$647.5M for operating and \$115.4M for capital.

The operating budget has been developed based on CATSA's reference level which includes incremental one-year funding of \$176.1M received through Budget 2017 in conjunction with an off-cycle funding allocation. This incremental funding consists of \$44.2M to allow CATSA to conduct screening of an estimated 65.6 million passengers and their belongings at the designated airports while delivering a wait time service level where, on average, approximately 85% of all passengers wait 15 minutes or less to be screened at Class I airports on an annual basis. In addition, the incremental funding includes \$131.9M to continue to deliver enhanced screening of non-passengers to meet Transport Canada's requirements for NPS. The majority of the operating budget consists of payments to third party contractors to perform screening services which represents over 80% of the total operating budget for 2017/18. The remaining budget provides for the maintenance of CATSA's Explosives Detection Systems (EDS) and non-EDS capital assets, as well as for screening-related disbursements and support services essential to the delivery of CATSA's mandate.

The capital budget has been developed based on CATSA's reference level which supports the ongoing life-cycle management of its HBS system at airports across Canada. The budget for the HBS initiative represents 66.9% of the total capital budget in 2017/18. The budget also provides for the deployment of CATSA Plus lanes at three of Canada's busiest airports which accounts for 16.1% of the budget. As discussed in chapter 2, the CATSA Plus initiative leverages new and innovative screening concepts, designed to improve customer experience, enhance security, and provide greater checkpoint capacity through the optimization of space. The deployment follows the successful trial in Montreal and the implementation of the CATSA Plus checkpoint at the Calgary airport's new terminal, both of which were achieved in 2016/17. Finally, the capital budget provides for the deployment of equipment and systems to support the enhanced NPS program, the ongoing life-cycle management of other EDS and non-EDS assets, and software and hardware updates to support CATSA's corporate systems.

## CATSA's Funding Profile

Table 1 summarizes CATSA's financial results for 2015/16 and 2016/17, and its funding profile for the period 2017/18 to 2021/22.

	Actual 2015/16	Actual 2016/17	Plan 2017/18	Plan 2018/19	Plan 2019/20	Plan 2020/21	Plan 2021/22	Five Year Total 2017/18 - 2021/22
Operating Expenditures	\$ 555	\$ 616	\$ 648	\$ 471	\$ 471	\$ 471	\$ 471	\$ 2,532
Capital Expenditures	99	108	115	111	106	84	102	518
<b>Total</b>	<b>\$ 654</b>	<b>\$ 724</b>	<b>\$ 763</b>	<b>\$ 582</b>	<b>\$ 577</b>	<b>\$ 555</b>	<b>\$ 573</b>	<b>\$ 3,050</b>

Totals may not reconcile to Table 2 due to rounding

The following section provides an overview of CATSA's funding profile over the five-year planning period.

### Operating

CATSA's operating plan over the five-year period has been developed based on its reference levels.

For fiscal year 2017/18, CATSA's operating reference level takes into account the incremental funding of \$176.1M received from the Government of Canada to deliver a wait time service level where, on average, approximately 85% of all passengers wait 15 minutes or less to be screened at Class I airports on an annual basis, and to continue to deliver the enhanced NPS program.

For fiscal year 2018/19 and beyond, the organization's operating reference levels revert back to its A-Base funding, established through Budget 2010 and subsequently reduced to reflect the outcome of successive mandatory operational and organizational reviews. Although Budget 2010 provided CATSA with long-term funding, this level of funding is not operationally effective as it does not accommodate screening contractor billing rate increases nor passenger growth which have been compounding over time. Absent of supplemental funding for 2018/19 and beyond, CATSA will experience significant pressures at its front-line operations which will increase exponentially by the compounding effect of reduced purchasing power and rising passenger volumes. Furthermore, as CATSA's A-Base funding was established in 2010 prior to ICAO's announcement of strengthened NPS standards, CATSA's NPS funding beyond 2017/18 will revert back to levels prior to the delivery of enhanced NPS.

CATSA continues to support Transport Canada in the development of an operationally effective long-term funding strategy for PBS and NPS.

### Capital

CATSA's capital budget over the five-year period accommodates the multi-year life-cycle management of its HBS system at airports across Canada. Through Budget 2011, CATSA received incremental funding in order to support the conversion of its five-level HBS system to a three-level system with Computed Tomography technology at airports across Canada based on a 10-year deployment schedule. This HBS initiative involves managing large multi-year HBS integration projects with airports across Canada which is complex in nature due to the intricacies of the designs and the coordination with multiple vendors.

Furthermore, the integration of the HBS system may be part of a larger airport capital project. As a result of these complexities, CATSA's project timelines and cost estimates often change for reasons which are largely outside of its control.

In 2016/17, CATSA identified capital spending of \$45.1M to be re-profiled to fiscal year 2017/18. The majority of the re-profile is attributable to delays in capital spending in support of the HBS initiative resulting from revised airport project plans. The capital re-profile is discussed in further detail in section 4.4.

In addition, CATSA revised its capital plan during the development of this Corporate Plan. This involved aligning the plan with the organization's strategic direction and corporate priorities with a focus on the life-cycle management of the HBS system in consideration of airport project plans, the deployment of the new CATSA Plus screening concept, and the life-cycle management plan of the X-ray equipment. This has resulted in changes to the capital spending profile over the planning period.

In January 2017, CATSA received approval from the Government of Canada for its early re-profile submission of \$11.4M. CATSA is working with TC to obtain approval for the remaining capital re-profile of \$33.7M, and for the annual spending profile changes.

In the fall of 2017, CATSA submitted an additional capital re-profile request of \$3.5M associated with the HBS initiative, which is not reflected in the organization's Financial Plan. CATSA is working with TC to obtain approval to re-profile these funds from 2017/18 to 2018/19.

### **Future Challenges**

Over the past three years, CATSA has received incremental one-year funding in order to maintain a wait time service level where, on average, approximately 85% of all passengers wait 15 minutes or less to be screened at Class I airports on an annual basis. In addition, the incremental funding received from the Government of Canada to deliver the enhanced NPS program ends March 31, 2018.

CATSA is working with TC on a long-term funding strategy to address funding pressures.

## 4.2 FINANCIAL RESULTS FOR 2016/17 AND THE 2017/18 - 2021/22 FINANCIAL PLAN BY PROGRAM ACTIVITY

### Overview

Table 2 summarizes the financial results and budget for 2016/17, as well as the 2017/18 – 2021/22 operating and capital plan by program activity.

<b>TABLE 2</b> <b>Financial Plan by Program</b> <i>(in thousands of dollars)</i>	<b>Actual 2015/16</b>	<b>Actual 2016/17</b>	<b>Budget 2016/17</b>	<b>Plan 2017/18</b>	<b>Plan 2018/19</b>	<b>Plan 2019/20</b>	<b>Plan 2020/21</b>	<b>Plan 2021/22</b>	<b>Five Year Total 2017/18 - 2021/22</b>
<b>Operating Expenditures</b>									
PBS	\$ 324,895	\$ 349,938	\$ 333,711	\$ 356,152	\$ 294,270	\$ 294,277	\$ 291,078	\$ 287,249	\$ 1,523,026
HBS	104,087	105,600	104,365	111,975	113,734	112,799	115,111	118,507	572,126
NPS	87,095	127,872	135,819	151,892	19,099	19,089	19,155	19,500	228,735
RAIC	2,538	2,425	2,400	2,667	2,790	3,268	3,345	3,418	15,489
Corporate Services	39,200	36,890	41,148	41,535	41,536	41,996	42,740	42,755	210,561
<b>Subtotal</b>	<b>\$ 557,815</b>	<b>\$ 622,725</b>	<b>\$ 617,443</b>	<b>\$ 664,221</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 2,549,937</b>
Other Sources of Operating Funding (Net of Other Expenses)	-3,082	-6,800	-	-16,692	-	-	-	-	(16,692)
<b>Total</b>	<b>\$ 554,733</b>	<b>\$ 615,925</b>	<b>\$ 617,443</b>	<b>\$ 647,529</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 2,533,245</b>
<b>Capital Expenditures</b>									
PBS	\$ 4,491	\$ 18,366	\$ 20,984	\$ 23,561	\$ 11,198	\$ 12,629	\$ 37,256	\$ 70,013	\$ 154,657
HBS	83,930	82,101	123,298	86,005	93,478	82,929	41,345	31,704	335,461
NPS	7,046	2,855	5,463	3,477	-	5,714	2,385	-	11,576
RAIC	601	603	30	511	3,492	3,843	2,720	96	10,662
Corporate Services	2,848	3,896	3,670	1,857	2,987	538	598	643	6,623
<b>Subtotal</b>	<b>\$ 98,916</b>	<b>\$ 107,821</b>	<b>\$ 153,445</b>	<b>\$ 115,411</b>	<b>\$ 111,155</b>	<b>\$ 105,653</b>	<b>\$ 84,304</b>	<b>\$ 102,456</b>	<b>\$ 518,979</b>
Proceeds of Disposal	-44	-12	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 98,872</b>	<b>\$ 107,809</b>	<b>\$ 153,445</b>	<b>\$ 115,411</b>	<b>\$ 111,155</b>	<b>\$ 105,653</b>	<b>\$ 84,304</b>	<b>\$ 102,456</b>	<b>\$ 518,979</b>
<b>Total Expenditures</b>	<b>\$ 653,605</b>	<b>\$ 723,734</b>	<b>\$ 770,888</b>	<b>\$ 762,940</b>	<b>\$ 582,584</b>	<b>\$ 577,082</b>	<b>\$ 555,733</b>	<b>\$ 573,885</b>	<b>\$ 3,052,224</b>

### 2016/17 Financial Results

Net operating expenditures for 2016/17 were in the amount of \$615.9M, a decrease of \$1.5M compared to the Corporate Plan budget of \$617.4M. This variance is mainly due to lower spending for NPS of \$7.9M and Corporate Services of \$4.3M, combined with the revenue generated from the delivery of supplemental screening services to support the GTAA Trial Agreement of \$6.8M, partially offset by higher spending for PBS of \$16.2M and HBS of \$1.2M. The costs to deliver the supplemental screening services are reflected in PBS.

The lower spending for NPS was mainly associated with the delivery of the vehicle screening program as certain airports experienced delays in completing the construction of their respective permanent vehicle screening facilities. Despite these delays, CATSA achieved 100% vehicle screening presence by conducting screening using temporary structures, which led to the use of fewer available screening lanes.

The lower spending for NPS and Corporate Services enabled CATSA to redirect additional funds to PBS and HBS to manage higher than projected passenger growth and increased operational requirements at certain Class I airports.

Capital expenditures for 2016/17 were in the amount of \$107.8M, a decrease of \$45.6M compared to the Corporate Plan budget of \$153.4M. The variance is mainly due to lower HBS spending of \$41.2M, of which the majority is associated with delays on HBS integration projects resulting from revised airport project plans. The decrease is also attributable to lower spending for PBS of \$2.6M and NPS of \$2.6M mainly resulting from project delays, partially offset by higher spending for RAIC and Corporate Services of \$0.6M and \$0.2M, respectively. As a consequence, capital spending of \$45.1M has been identified for re-profile to 2017/18 to align with revised project plans.

A variance analysis of the operating and capital expenditures compared to the Corporate Plan Budget is presented in sections 4.3 and 4.4, respectively.

## **2017/18 – 2021/22 Financial Plan**

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.

### **Pre-Board Screening**

Operating and capital expenditures for PBS operations account for 54.7% of CATSA's five-year financial plan.

As stated earlier, CATSA received one-year incremental funding which will allow CATSA to deliver a wait time service level where, on average, approximately 85% of all passengers wait 15 minutes or less to be screened at Class I airports in 2017/18. CATSA continues to support Transport Canada in the development of an operationally effective long-term funding strategy for PBS for fiscal year 2018/19 and beyond.

Furthering the industry's desire for improved wait times, the Greater Toronto Airports Authority (GTAA), with Transport Canada's support, has purchased additional screening hours from CATSA in order to mitigate wait time pressures on a yearly basis since 2014. In October 2014, CATSA entered into a trial agreement with the GTAA to allow the Airport Authority to purchase supplemental PBS screening hours from CATSA on a cost recovery basis. Based on the airport's desire to continue purchasing additional screening hours, the Supplemental Screening Agreement was extended annually, and is currently set to expire March 31, 2018. Revenue generated from the purchase of supplemental screening hours by the GTAA was in the amount of \$6.8M in 2016/17, with forecasted revenue of \$12.7M for 2017/18. Similar to the GTAA Agreement and consistent with the intent of Bill C-49, the *Transportation Modernization Act*, CATSA has entered into a Supplemental Screening Agreement with the Vancouver International Airport Authority (YVRAA). The Agreement began June 26, 2017 and is set to expire March 31, 2018. Revenue projections to be generated from this trial are in the amount of \$3.8M in 2017/18 based on the estimated number of supplemental screening hours planned to be purchased by the YVRAA.

The revenue projections and associated costs for these agreements are reflected in CATSA's Financial Plan.

In July 2015, the Government of Canada announced new regulations to allow airports that do not have access to screening services from CATSA to obtain them on a cost recovery basis. This announcement was formalized through Bill C-49, thereby allowing CATSA to enter into longer term cost recovery agreements with airports. Discussions between CATSA and interested airports remain in preliminary stages.

Following the successful trial of the CATSA Plus concept in Montreal and the installation of multiple CATSA Plus lanes at the new International Terminal Building at the Calgary International Airport in 2016,

CATSA will continue its deployment based on available funding. Accordingly, the deployment of CATSA Plus lanes will be focused at three of Canada's busiest airports over the planning period where operational pressures are more prevalent. The CATSA Plus lane integrates new and innovative technologies and processes which have been trialed and implemented, including, most notably, parallel divest, automated split lane systems, remote X-ray operators, Boarding Pass Security System (BPSS), networking, X-ray time limits, eGates and tracking sensors. This new screening concept will provide greater checkpoint capacity through the optimization of space provided by the airports with the aim of improving security effectiveness and passenger flow through checkpoints.

As of July 19, 2017, new enhanced security measures for the screening of electronic devices were introduced at airports across the country to meet TSA requirements for US-bound flights which have put additional strain on the front-line operations.

The capital plan for PBS also accommodates the ongoing life-cycle management of its EDS equipment over the five-year period. This will include exploring new technologies as part of the life-cycle management plan with the objective of enhancing PBS efficiency and effectiveness while maintaining international equivalency.

Lastly, the capital plan supports the deployment of new Liquid Explosives Detection Systems (LEDS) technology at Canada's largest airports.

### **Hold Baggage Screening**

Operating and capital expenditures for HBS operations account for 29.6% of CATSA's five-year financial plan.

The operating plan for HBS provides for the purchase of screening hour requirements to support the operations over the planning period. The plan also accommodates the ongoing maintenance and support of CATSA's HBS equipment and systems.

CATSA's capital plan continues to focus on the life-cycle management of its HBS system which represents 56.6% of the total EDS capital spending over the five-year period. With all new HBS Transborder systems completed by the end of 2016/17, CATSA has shifted its focus towards the life-cycle management of Domestic and International HBS systems over the planning period. Given the complexity of this initiative, ongoing changes to the HBS capital plan can be anticipated as airport projects may shift from one year to another based on factors beyond CATSA's control.

### **Non-Passenger Screening**

Operating and capital expenditures for NPS operations account for 7.8% of CATSA's five-year financial plan.

In 2014, CATSA received incremental three-year funding of \$282.4M for the period 2014/15 to 2016/17 from the Government of Canada to deliver the enhanced NPS program to meet Transport Canada's requirements and maintain alignment to ICAO standards. The program consisted of providing increased NPS coverage at the air terminal building access points and achieving 100% CATSA presence for screening of non-passengers and vehicles accessing the commercial apron of an airport at Canada's highest risk airports. As part of the program, airports were responsible for the construction and financing of permanent vehicle structures to support the full solution. Despite airport delays in completing the construction of their respective permanent vehicle screening facilities by the April 1, 2016 deadline, CATSA achieved its 2016/17 objectives of 100% vehicle screening presence by conducting screening using temporary structures.

Pending a long-term funding solution for the program, CATSA received one-year incremental funding of \$131.9M through Budget 2017 to continue to deliver the enhanced NPS program in 2017/18. CATSA continues to work closely with TC and stakeholders in the delivery of the program.

On July 18, 2017, CATSA was relieved from the regulatory requirement to screen non-passengers who access U.S. bound aircrafts at airports where an enhanced NPS program is in place. As a consequence, CATSA was able to re-allocate savings of more than \$4M in 2017/18 resulting from this exemption, to PBS in order to partially fund the additional screening requirements associated with the introduction of the new security measures.

Starting in 2018/19, CATSA's funding levels for NPS revert back to levels prior to the delivery of enhanced NPS.

The capital plan for NPS provides for the purchase and deployment of equipment and systems at the permanent vehicle screening facilities in 2017/18 to support the enhanced NPS program. The capital plan also provides for the life-cycle management of equipment and systems that are reaching the end of its useful lives to support CATSA's NPS activities.

### **Restricted Area Identity Card**

Operating and capital expenditures for RAIC operations account for 0.8% of CATSA's five-year financial plan. Planned expenditures reflect RAIC card purchases and ongoing operational requirements to support CATSA's biometric verification hardware and system infrastructure.

The capital plan for RAIC accommodates the replacement of the RAIC enrollment system and biometric platform with advanced technology to improve efficiency through greater automation and better end-user tools. The RAIC system is deployed at the 32 highest risk airports in Canada.

### **Corporate Services**

Operating and capital expenditures for Corporate Services account for 7.1% of CATSA's five-year financial plan and consist of expenditures associated with support services and systems critical to the efficient and effective delivery of CATSA's core mandate.

Capital spending for Corporate Services represents 1.3% of the total five-year plan, and consists primarily of investments in CATSA's network infrastructure and corporate management systems.

### **Revenue and Other Income/Expenses**

Revenue and Other Income/Expenses consist of revenue projections generated from the purchase of supplemental screening hours by the GTAA and by the YVRAA, in support of their respective trial agreements, both of which are set to expire March 31, 2018. These agreements are consistent with the intent of Bill C-49, the *Transportation Modernization Act*, tabled by the Minister of Transport on May 16, 2017, which establishes a permanent framework for cost recovery arrangements.

The revenue generated from the sub-lease of a portion of CATSA's Headquarters office space is also included in the budget for 2017/18 and is set to expire October 31, 2017.

The above revenue accounts for approximately 2.1% and 0.5% of CATSA's source of funding for the 2017/18 budget and the five-year plan, respectively.

## 4.3 FINANCIAL RESULTS FOR 2016/17 AND THE 2017/18 - 2021/22 FINANCIAL PLAN FOR OPERATING EXPENDITURES

### Overview

Table 3 summarizes the financial results and budget for 2016/17, as well as the 2017/18 – 2021/22 operating plan by major expenditure category.

	Actual 2015/16	Actual 2016/17	Budget 2016/17	Plan 2017/18	Plan 2018/19	Plan 2019/20	Plan 2020/21	Plan 2021/22	Five Year Total 2017/18 - 2021/22
<b>Operating Expenditures</b>									
<b>SCREENING SERVICES AND OTHER RELATED COSTS</b>	<b>\$ 442,678</b>	<b>\$ 506,075</b>	<b>\$ 496,527</b>	<b>\$ 544,178</b>	<b>\$ 350,684</b>	<b>\$ 350,059</b>	<b>\$ 348,178</b>	<b>\$ 346,398</b>	<b>\$ 1,939,497</b>
Payments to Screening Contractors	435,247	497,269	487,410	536,841	345,248	344,580	342,607	340,862	1,910,138
Uniforms and Other Screening-Related Costs	5,116	6,516	5,948	4,443	3,240	3,198	3,261	3,121	17,263
Trace and Consumables	2,315	2,290	3,169	2,894	2,196	2,281	2,310	2,415	12,096
<b>EQUIPMENT OPERATING AND MAINTENANCE</b>	<b>\$ 40,778</b>	<b>\$ 40,815</b>	<b>\$ 39,993</b>	<b>\$ 40,378</b>	<b>\$ 39,020</b>	<b>\$ 38,072</b>	<b>\$ 38,807</b>	<b>\$ 40,911</b>	<b>\$ 197,188</b>
Equipment Maintenance and Spare Parts	39,141	38,381	37,657	38,153	36,890	36,658	37,567	39,616	188,884
Training and Certification	603	1,428	1,393	1,263	1,149	414	219	254	3,299
RAIC Cards	1,034	1,006	943	962	981	1,000	1,021	1,041	5,005
<b>PROGRAM SUPPORT AND CORPORATE SERVICES</b>	<b>\$ 74,359</b>	<b>\$ 75,835</b>	<b>\$ 80,923</b>	<b>\$ 79,665</b>	<b>\$ 81,725</b>	<b>\$ 83,298</b>	<b>\$ 84,444</b>	<b>\$ 84,120</b>	<b>\$ 413,252</b>
Employee Costs	52,055	54,315	56,701	54,643	58,184	59,892	60,850	60,645	294,214
Professional Services and Other Business-Related Costs	5,323	5,717	6,557	7,210	6,800	6,600	6,400	6,100	33,110
Office and Computer Expenses	4,834	5,346	5,268	5,621	5,392	5,335	5,541	5,544	27,433
Communications and Public Awareness	889	919	953	1,223	960	900	900	900	4,883
Other Costs <sup>1</sup>	11,258	9,538	11,444	10,968	10,389	10,571	10,753	10,931	53,612
<b>Subtotal</b>	<b>\$ 557,815</b>	<b>\$ 622,725</b>	<b>\$ 617,443</b>	<b>\$ 664,221</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 2,549,937</b>
Other Sources of Operating Funding (Net of Other Expenses)	(3,082)	(6,800)	-	(16,692)	-	-	-	-	(16,692)
<b>Total Operating Expenditures</b>	<b>\$ 554,733</b>	<b>\$ 615,925</b>	<b>\$ 617,443</b>	<b>\$ 647,529</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 2,533,245</b>

<sup>1</sup> Other 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 financial results compared to budget for 2016/17, and a discussion of the 2017/18 – 2021/22 operating plan along with subsets of the financial table above, for each major 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 Screening-Related Costs; and
- Trace and Consumables.

#### Payments to Screening Contractors

The budget for Payments to Screening Contractors represents the largest expenditure in CATSA's operating plan. The 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 the screening contractors, as set forth under the terms of CATSA's ASSAs. The agreements include a performance program that remunerates screening contractors for contractual compliance and achievement of specified performance targets.

The budget for Payments to Screening Contractors also provides for screening officer training and recurrent learning requirements.

#### Uniforms and Other Screening-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 Screening-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, trace swabs and verification filters.

### **2016/17 Variance Analysis**

Screening Services and Other Related Costs were \$9.5M higher than budget. The variance is mainly due to an increase in Payments to Screening Contractors of \$9.8M, partially offset by lower screening-related costs of \$0.3M.

Contributing to this increase was the delivery by CATSA of 131,561 supplemental PBS hours over the course of the fiscal year, for a total cost of \$6.0M, in support of the GTAA Trial Agreement. These costs and the associated revenue were not reflected in the budget as the Agreement was set to expire at the time of developing the 2016/17 Corporate Plan and an extension to this agreement was not guaranteed. Furthermore, CATSA purchased additional screening hours for PBS and HBS for a cost of \$1.3M and \$2.5M, respectively to manage higher than projected passenger growth, and increased operational requirements at certain Class I airports. Increased operational requirements were mainly driven by changes in flight schedules, passenger arrival times, hours of operations and checkpoint reconfigurations. These additional screening hours were funded from underspending mainly associated with Corporate Services.

During the fiscal year, CATSA was able to redirect \$8.1M of the NPS screening hour budget to PBS, resulting in a net neutral budget impact. This was largely due to airport delays in completing the construction of their respective permanent vehicle screening facilities. As a consequence, vehicle screening was conducted by CATSA using temporary structures, which led to the use of fewer available screening lanes pending the completion of the respective airports' facilities, resulting in lower screening costs to deliver the enhanced NPS program than budgeted.

Other screening-related costs are \$0.3M lower than budget as follows:

- Trace and Consumables are \$0.9M lower than budget due to the usage of additional inventory purchased in late 2015/16 and lower consumption to support the NPS vehicle program. These decreases are partially offset by the purchase of transitional consumables inventory from the existing supplier as a new contract has been awarded to a new vendor, effective May 1, 2017.

- Uniforms and Other Screening-Related Costs are \$0.6M higher than budget mainly due to a higher year-end purchase of uniforms inventory and increased spending for screening-related items for the deployment of a new X-Ray platform and CATSA Plus lanes, partially offset by lower screening-related costs to support operational trials.

## **2017/18 – 2021/22 Financial Plan**

### Payments to Screening Contractors

#### *Screening Hours*

The five-year budget for Payments to Screening Contractors has been developed in consideration of CATSA's operating reference levels. While CATSA continues to support Transport Canada in the development of an operationally effective long-term funding strategy for PBS, incremental one-year funding of \$44.2M has been received from the Government of Canada to maintain a wait time service level where, on average, approximately 85% of all passengers wait 15 minutes or less to be screened in 2017/18. The budget for 2018/19 and beyond reverts back to CATSA's A-Base funding. As a result, the number of screening hours budgeted for PBS for 2018/19 decreases 22.5% from 2017/18 levels, with a gradual decrease over the planning period due to reduced purchasing power. Recognizing that there is no long-term government set service level, CATSA will continue to operate within its approved reference levels and will continue to meet its security mandate. However, passengers will wait longer to be screened absent of a long-term, operationally effective funding solution. The introduction of the new enhanced security measures in 2017/18 will put additional pressure on PBS operations.

Moreover, CATSA received incremental funding of \$131.9M through Budget 2017 to continue to deliver the enhanced NPS program. Accordingly, screening hours planned for 2017/18 take into account the incremental funding which provides for increased vehicle screening requirements as the airports complete the construction of their permanent vehicle facilities.

As stated earlier, CATSA was able to re-allocate savings of more than \$4M from NPS to PBS in 2017/18, following the implementation of the NPS exemption on July 18, 2017, to partially absorb the additional screening requirements associated with the introduction of the enhanced security measures.

As of April 1, 2018, the screening hour budget for NPS reverts back to levels prior to the delivery of enhanced NPS with a corresponding decrease in the annual screening hour budgets.

The budget for HBS provides for the purchase of baseline screening hour requirements to support the operations over the planning period. Due to limitations with CATSA's A-Base funding for 2018/19 and beyond, this budget was developed in consideration of ensuring that CATSA's mandated activities are delivered prior to budgeting for a service level.

#### *Billing Rates*

Following an extensive review and evaluation of screening contractor proposals for the renewal of its ASSAs which expired March 31, 2017, CATSA renewed the four ASSA contracts for a five-year term. As of April 01, 2018, the budget for Payments to Screening Contractors reflects the new screening contractor billing rates which include annual billing rate increases as per the terms of these agreements. Further details of the ASSA renewal are provided in section 2.

#### *Performance Pay*

The screening contractor performance pay budgeted over the five-year planning period is based on a predetermined percentage of the screening hours budget, as per the terms of the ASSAs, as well as in consideration of the screening contractors' past performance. The decrease in the performance pay starting in fiscal year 2018/19 corresponds to a reduction in the screening hours budget for PBS and NPS, as discussed above.

#### *Screening Officer Training & Travel*

Planned expenditures for Training & Travel for 2017/18 provides for the training and certification of CATSA's screening officer workforce to support CATSA's mandated activities. The decrease in 2018/19 reflects reduced training requirements to support a smaller screening officer workforce, based on a reduction in the screening hours budget for NPS and PBS. In 2016/17, costs were \$2.2M higher than budget as CATSA certified more new screening officers than planned in light of headcount increases that were not anticipated in the budget, and training delivered on CATSA Plus and the new X-ray platform deployed during the year.

#### Uniforms and Other Screening-Related Costs

Planned expenditures reflect CATSA's screening officer uniform requirements over the five-year period. The plan also accommodates the purchase of screening-related items to enhance operational efficiencies, maintain a common look-and-feel at PBS checkpoints and support the deployment of CATSA Plus. The decrease in planned expenditures in 2017/18 compared to 2016/17 is due to lower uniform inventory purchases combined with the usage of additional inventory purchased in late 2016/17, and lower spending for screening-related items at PBS checkpoints. The decrease in planned expenditures in 2018/19 reflects reduced uniform requirements to support a smaller screening officer workforce, given the reduction in the screening hours budget for NPS and PBS.

#### Trace and Consumables

Planned expenditures reflect CATSA's operational requirements for trace and consumables to conduct screening at the designated airports, and accommodate annual increases as per the terms of the vendor contracts. The increase in planned expenditures in 2017/18 compared to 2016/17 mainly reflects a higher projected consumption of trace and consumables to support the enhanced NPS program, and lower use of inventory to fulfill requirements in 2017/18. The decrease in planned expenditures in 2018/19 reflects reduced NPS screening activities effective April 1, 2018.

### **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 and systems.

#### Training and Certification

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

### Restricted Access Identity Cards

RAIC Cards consist of the purchase of cards in support of the existing biometric validation system installed at Class I, Class II and select Class III airports.

### **2016/17 Variance Analysis**

Expenditures for 2016/17 were \$0.8M higher than budget. The variance is mainly due to higher Equipment Maintenance and Spare Parts costs of \$0.7M resulting from the purchase of additional spare parts inventory for PBS X-Ray and Trace equipment, incremental costs to support the deployment of a new X-Ray platform and the postponed replacement of legacy EDS equipment with new technology under warranty to align with the revised project plan for a large Class I airport. The increase is partially offset by fewer spare part purchases for certain HBS equipment, primarily achieved through the use of parts from equipment taken out of service, vendor credits associated with the performance of some EDS equipment, and lower costs to support equipment-related activities for HBS.

### **2017/18 – 2021/22 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 equipment and systems, as well as new EDS deployments planned over the five-year period. The budget also accommodates annual contractual increases, as per the terms of CATSA's equipment maintenance contracts, as well as an estimated USD exchange rate for contracts denominated in U.S. dollars. The budget also considers costs associated with the ongoing support of non-EDS capital equipment and systems, including CCTV, RAIC and BPSS.

Planned expenditures for Equipment Maintenance and Spare Parts decrease in 2018/19 and 2019/20 as legacy EDS equipment (i.e. CT and X-ray) is replaced with new technology, which is covered under standard warranty terms. Subsequently, planned expenditures increase in the latter years of the plan as the warranty for CT equipment deployed as part of the life-cycle management of CATSA's HBS system expire over time. In addition, the budget increases over the planning period to support the deployment of CATSA Plus lanes and new Liquid Explosives Detection Systems technology. Lastly, the budget for the Restricted Area Identity Card program increases in the latter years of the plan due to higher projected costs to support the new RAIC platform planned to be implemented in fiscal year 2019/20.

The budget for CATSA's Maintenance Service Provider (MSP) is relatively constant over the planning period and is based on the existing contract which is set to expire March 31, 2021. The budget for 2021/22 is based on the assumption that the rates will not deviate significantly from the terms of the existing contract.

#### Training and Certification

Planned expenditures provide for the training of CATSA's equipment maintenance service provider for new EDS technology deployed at airports across Canada. The training requirements are mainly driven by the deployment of the new CT equipment as part of the HBS capital life-cycle management plan. Planned expenditures also provide for training requirements in support of the ongoing life-cycle management of Explosives Trace Detection equipment and other EDS deployments.

### Restricted Access Identity Cards

Planned expenditures for RAIC cards represent CATSA's annual operational requirements over the planning period based on historical card usage.

### **4.3.3 Program Support and Corporate Services**

#### **Summary**

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

Program Support and Corporate Services are categorized as follows:

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

#### **2016/17 Variance Analysis**

Program Support and Corporate Services costs were \$5.1M lower than budget. The variance is mainly due to lower spending across various expenses as follows:

- Employee Costs of \$2.4M, which mainly consist of \$1.4M less in pension-related payments required to meet statutory requirements for the fiscal year. The remaining balance is primarily due to fewer staffed positions than anticipated as a number of vacant positions were filled internally therefore creating downstream vacancies;
- Insurance and Other Administrative Costs of \$0.8M, due to a credit for HST collected from the GTAA for supplemental screening services provided to March 31, 2016;
- Rent and Facilities of \$1.1M, largely due to credits received for property taxes and operating costs incurred in prior years for corporate headquarters, and lower facilities-related costs; and
- Professional Services of \$0.9M, mainly due to the deferral of certain projects to the next fiscal year and the use of fiscal prudence to support various corporate activities.

#### **2017/18 – 2021/22 Financial Plan**

##### Employee Costs

The Employee Costs budget provides for salaries and benefits to support 439 approved FTE positions, adjusted for an annual vacancy rate. The budget also accommodates the employee performance pay program and annual salary increases for cost of living.

The budget also provides for projected statutory pension plan solvency deficit payments for CATSA's Registered Pension Plan for a total amount of \$7.1M over the five-year planning period which is based on the latest pension valuation results of December 31, 2016. The payment profile reflects CATSA's expected use of the credit for excess contributions made in prior years. The credit is allocated predominantly to the years when CATSA is experiencing more significant funding pressures. CATSA continues to monitor the impact of interest rates on the solvency deficit and to explore the feasibility of pursuing a special reduction clause (Ministerial Letter of Credit) to assist in minimizing such payments in the future. The funding payments included in this five-year plan assume no significant changes to market interest rates and asset returns that are not significantly lower than anticipated.

##### Office and Computer Expenses

Planned expenditures for Office and Computer Expenses represent ongoing requirements to support CATSA's operations and corporate infrastructure, and accommodate annual increases for software and hardware renewal contracts. The increase in costs for 2017/18 compared to the prior year is mainly due

to higher support costs for newly implemented corporate systems and for the life-cycle management of non-capitalized items, partially offset by lower software licensing costs.

#### Professional Services

Planned expenditures for Professional Services focus on specialized technical skills that are not available within the organization. This includes external expertise to support corporate activities in the areas of IT, internal audit, legal, tax, complex accounting matters and pension. The increase in planned expenditures for 2017/18 compared to the prior year is partly due to the need for external expertise to support increased mandated requirements (i.e. fraud risk assessment, fraud audits) and new corporate initiatives. The variance is also due to lower professional services costs in 2016/17 as discussed above. The costs decrease slightly over the planning period in order to work within CATSA's operating reference levels.

#### Travel and Other Business-Related Costs

Planned expenditures provide for travel requirements to support screening operations within the regions, the capital deployment plan, and other operational initiatives. Planned expenditures also provide for hospitality and conference fees to support ongoing corporate activities. Planned expenditures in 2017/18 are slightly higher than the prior year mainly to support the planned CATSA Plus deployments during the fiscal year. The costs decrease slightly over the planning period in order to work within CATSA's operating reference levels.

#### Communications and Public Awareness

Planned expenditures provide for the delivery of CATSA's proactive outreach program which serves to inform passengers on what to expect at the PBS checkpoint and how to better prepare for screening. CATSA continues to use its existing website and a limited social media presence to inform passengers. The increase in planned expenditures for 2017/18 compared to the prior fiscal year represents the costs associated with the CATSA website redesign to improve the end-user experience through the use of more current technology and a modified layout. Planned Expenditures for the remaining four years of the plan remain relatively constant.

#### Other Costs

Planned expenditures for Rent and Facilities mainly consist of lease costs for corporate headquarters, the testing facility and regional offices which reflect annual increases as per the term of the leases. The increase in planned expenditures for 2017/18 compared to the prior year is mainly due to one-time credits received in 2016/17 for property taxes and operating costs incurred in prior years as discussed above. In 2018/19, CATSA will benefit from full-year savings associated with a favourable renewal lease rate for corporate headquarters which takes effect in December 2017.

Planned expenditures for Network and Telephony consist of costs to support CATSA's network infrastructure. The decrease starting in 2018/19 reflects a reduction in network links as NPS reverts back to levels prior to the delivery of enhanced NPS, absent of incremental funding.

The budget also provides for CATSA's portfolio of insurance which is comprised of property and casualty insurance. Effective April 1, 2013, CATSA ceased the purchase of War Risk insurance as part of the Deficit Reduction Action Plan and replaced this coverage with an indemnity from the Government of Canada, which expired on March 31, 2017. CATSA was successful in securing the renewal of the indemnity from the Government of Canada for a three-year term, set to expire March 31, 2020. The budget is based on the assumption that the indemnity will be renewed for the remainder of the planning period.

#### **4.3.4 Revenue and Other Income/Expenses**

##### **Summary**

Revenue and Other Income/Expenses mainly consist of the following:

- Supplemental screening services associated with the purchase of screening hours by the GTAA and the YVRAA under the terms of their respective trial agreements;
- Interest revenue earned on cash deposits;
- Foreign exchange gains/losses resulting from the periodic translation and settlement of U.S. dollar capital and operating expenditures incurred during the fiscal year; and
- Other revenue, including the revenue generated from the sub-lease of a portion of CATSA's Headquarter office space which is set to expire October 31, 2017.

##### **2016/17 Variance Analysis**

Revenue and Other Income/Expenses were in the amount of \$6.8M and consisted of revenue of \$6.8M generated from the purchase of supplemental screening hours by the GTAA and interest revenue of \$0.5M, partially offset by foreign exchange losses of \$0.5M on the settlement of U.S. dollar transactions.

##### **2017/18 – 2021/22 Financial Plan**

The Supplemental Screening Agreement with the GTAA was extended to March 31, 2018 based on the airport's desire to continue purchasing additional screening hours to mitigate wait time pressures. Accordingly, the budget for 2017/18 includes projected revenue of \$12.7M based on the estimated number of screening hours planned to be purchased by the GTAA.

In May 2017, with TC's support, the Vancouver International Airport Authority (YVRAA) was granted the authority to purchase supplemental PBS screening hours from CATSA in order to reduce the wait time impact of anticipated higher passenger volumes for 2017/18. Accordingly, projected revenue of \$3.8M has been factored into the budget for 2017/18 in support of the YVRAA agreement, which is set to expire March 31, 2018.

As there is no certainty of renewal for the GTAA and YVRAA agreements, the revenue and associated costs beyond the Agreements' expiry date of March 31, 2018 are not projected. As stated earlier, these agreements are consistent with the intent of Bill C-49, the *Transportation Modernization Act*, tabled by the Minister of Transport on May 16, 2017, which establishes a permanent framework for cost recovery arrangements.

The plan does not reflect the impact from the potential delivery of screening at other designated airports, as discussions with interested airports remain in preliminary stages only (refer to section 2 for further details).

In addition, given that interest revenue and foreign exchange gains/losses are unpredictable in nature, they are not considered over the planning period.

In 2016/17, CATSA consolidated its office space at corporate headquarters and entered into a sub-lease agreement for a portion of its premises. This sub-lease agreement commenced February 1, 2017 for a term of nine months and will generate total revenue of \$270k, of which \$60k was recognized in 2016/17. CATSA will continue to look for sub-lease opportunities for November 2017 and onward.

## 4.4 FINANCIAL RESULTS FOR 2016/17 AND THE 2017/18 - 2021/22 FINANCIAL PLAN FOR CAPITAL EXPENDITURES

### Overview

Table 4 summarizes the financial results and budget for 2016/17, as well as the 2017/18 – 2021/22 capital plan by major expenditure category.

TABLE 4 Capital Plan by Major Expenditure Category (in thousands of dollars)									
	Actual 2015/16	Actual 2016/17	Budget 2016/17	Plan 2017/18	Plan 2018/19	Plan 2019/20	Plan 2020/21	Plan 2021/22	Five Year Total 2017/18 - 2021/22
<b>Capital Expenditures</b>									
<b>EDS CAPITAL</b>									
PBS	\$ 3,171	\$ 16,805	\$ 18,602	\$ 21,410	\$ 9,716	\$ 11,747	\$ 37,077	\$ 69,456	\$ 149,406
HBS	83,829	82,089	123,298	85,905	93,378	82,829	41,245	31,604	334,961
NPS	2,551	1,653	3,911	2,464	-	5,714	2,385	-	10,563
<b>Total EDS Capital</b>	<b>\$ 89,551</b>	<b>\$ 100,547</b>	<b>\$ 145,811</b>	<b>\$ 109,779</b>	<b>\$ 103,094</b>	<b>\$ 100,290</b>	<b>\$ 80,707</b>	<b>\$ 101,060</b>	<b>\$ 494,930</b>
<b>NON-EDS CAPITAL</b>									
PBS	\$ 1,320	\$ 1,561	\$ 2,382	\$ 2,151	\$ 1,482	\$ 882	\$ 179	\$ 557	\$ 5,251
HBS	101	12	-	100	100	100	100	100	500
NPS	4,495	1,202	1,552	1,013	-	-	-	-	1,013
RAIC	601	603	30	511	3,492	3,843	2,720	96	10,662
Corporate Services	2,848	3,896	3,670	1,857	2,987	538	598	643	6,623
<b>Total Non-EDS Capital</b>	<b>\$ 9,365</b>	<b>\$ 7,274</b>	<b>\$ 7,634</b>	<b>\$ 5,632</b>	<b>\$ 8,061</b>	<b>\$ 5,363</b>	<b>\$ 3,597</b>	<b>\$ 1,396</b>	<b>\$ 24,049</b>
Proceeds of Disposal	(44)	(12)	-	-	-	-	-	-	-
<b>Total Capital Expenditures</b>	<b>\$ 98,872</b>	<b>\$ 107,809</b>	<b>\$ 153,445</b>	<b>\$ 115,411</b>	<b>\$ 111,155</b>	<b>\$ 105,653</b>	<b>\$ 84,304</b>	<b>\$ 102,456</b>	<b>\$ 518,979</b>

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

EDS capital expenditures consist of the acquisition of explosives detection system equipment for PBS, HBS and NPS as well as the associated costs for installation and integration.

Non-EDS capital expenditures consist of equipment and systems essential to the delivery of CATSA's mandated programs as well as in support of CATSA's network infrastructure and corporate management practices.

The capital plan is developed based on an estimated USD exchange rate for contracts denominated in U.S. dollars, the majority of which encompass the purchase of CT equipment.

The following section provides a variance analysis of the financial results compared to budget for 2016/17, and a discussion of the 2017/18 – 2021/22 financial plan for EDS and non-EDS capital.

#### **4.4.1 Explosives Detection Systems Capital**

##### **Summary**

CATSA's EDS capital plan is developed based on the following key considerations:

- 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;
- Supporting new security regulations and operational trials; and
- Addressing airport capacity requirements.

##### **2016/17 Variance Analysis**

During the 2016/17 fiscal year, capital funds in the amount of \$45.1M were identified for re-profile from 2016/17 to 2017/18, and comprise of \$44.5M for EDS and \$0.6M for non-EDS.

The capital re-profile for EDS consists primarily of the following projects:

- HBS integration projects (\$37.3M) – the purchase of equipment and integration work have been postponed to align with revised airport project plans. The majority of the capital spending delays are associated with four airports (Toronto, Montreal, Quebec and Fredericton);
- CATSA Plus (\$3.7M) – The receipt of Smart Lane equipment for CATSA Plus has been delayed to 2017/18 to align with equipment availability from the supplier; and
- Enhanced NPS (\$2.3M) – the purchase of EDS equipment has been postponed to 2017/18 as CATSA awaits further direction on the required equipment configuration of the new NPS Vehicle permanent screening facilities.

After taking into consideration the capital re-profile, expenditures for EDS were \$0.8M lower than budget for 2016/17. Moreover, CATSA redirected a majority of the available budget from unused contingency funds for HBS integration projects and lower costs associated with the new CATSA Plus checkpoint at the Calgary International Airport towards the purchase of additional CATSA Plus lanes in support of the national deployment initiative and the purchase of additional Liquid Explosives Detection System equipment. These investments support security effectiveness and passenger facilitation at PBS checkpoints.

##### **2017/18 – 2021/22 Financial Plan**

The EDS capital plan represents approximately 95.4% of CATSA's capital budget over the planning period.

##### **Pre-Board Screening**

CATSA's capital plan provides for the life-cycle management of its existing PBS screening equipment deployed at airports across Canada which is reaching the end of its useful life. More specifically, CATSA will make significant capital investments in the multi-year life-cycle management of its X-ray equipment for PBS and HBS beginning in 2020/21 with a focus on Canada's major airports. In addition, the plan provides for the life-cycle management of other EDS equipment including Walk-Through Metal Detectors and Explosives Trace Detection equipment. As part of the life-cycle management plan, CATSA will explore options for new technologies with the aim of optimizing the PBS checkpoints as well as ensuring alignment with its international partners.

Following the successful trial of the CATSA Plus concept in Montreal and the installation of multiple CATSA Plus lanes at the new International Terminal Building at the Calgary International Airport in 2016, CATSA will begin the national deployment of CATSA Plus, as it accommodates the replacement of standard PBS lanes with CATSA Plus lanes at Canada's largest airports over the planning period. CATSA's goal is to have all airports participate in this CATSA Plus screening concept initiative in order for as many passengers as possible to reap the benefits. The completion of the national deployment will be subject to available funding.

Lastly, the capital plan accommodates the deployment of new LEDS technology at PBS checkpoints in the later years of the plan based on Transport Canada's direction on screening requirements for liquids, aerosols and gels.

### **Hold Baggage Screening**

CATSA's EDS capital plan continues to focus on the life-cycle management of its HBS systems. This multi-year undertaking commenced in 2011 and consists of the conversion of the five-level HBS system to three levels with new CT technology at airports across Canada. The deployment plan was developed based on a 10-year schedule in consideration of the estimated useful lives of the existing HBS system and equipment. CATSA has completed the life-cycle management of all Transborder HBS systems in 2016/17 to meet *Beyond the Border* commitments and the plan provides for the life-cycle management of remaining HBS systems. These consist of Domestic and International HBS systems at major airports and HBS systems at smaller airports. The plan also accommodates the deployment of additional CT equipment at select large Class I airports to support anticipated growth.

Over the course of the five-year planning period, CATSA is projecting to spend a total amount of \$280.1M to complete the project, which represents approximately 57% of the overall EDS capital budget envelope.

CATSA's HBS capital plan also provides for the life-cycle management of X-ray equipment for oversize baggage with CT technology to support the new HBS system at select airports, engineering expertise to support HBS integration projects, and costs associated with the testing and deployment of new technology solutions.

### **Non-Passenger Screening**

As discussed in Section 4.2, the airports were responsible for financing and building permanent facilities by the April 1, 2016 deadline, in support of the full NPS vehicle solution. However, certain airports have experienced delays in completing the construction of their respective permanent vehicle screening facilities. CATSA continues to work with the airport authorities to ensure a smooth transition as permanent facilities are completed.

The plan provides for the purchase and deployment of Walk-through Metal Detectors and Liquid Explosives Detection System equipment at the permanent vehicle screening facilities in 2017/18 to support the enhanced NPS program.

The plan also accommodates the life-cycle management of CATSA's existing EDS equipment at NPS access points based on the estimated useful life of the equipment.

#### **4.4.2 Non-EDS Capital**

##### **Summary**

The non-EDS capital plan is developed in consideration of the following key factors:

- Useful life of CATSA's existing non-EDS equipment and systems at corporate headquarters and in the regions;
- Operational trials conducted at the airports; and
- New technologies to enhance CATSA's network infrastructure and corporate management systems.

CATSA's financial results and budget for 2016/17, as well as its financial plan for non-EDS capital are presented in the following table.

##### **2016/17 Variance Analysis**

During the 2016/17 fiscal year, non-EDS capital funds of \$0.6M were identified for re-profile to 2017/18. The capital re-profile consisted mainly of a delay in the receipt of eGates for the Edmonton International Airport to accommodate a revised delivery date from the supplier, and delays in the installation of the Traffic Management System due to airport delays in the completion of the necessary physical infrastructure to accommodate the system.

After taking into consideration the capital re-profile, capital expenditures for non-EDS capital were \$0.3M higher than the Corporate Plan budget. The variance is associated with various capital projects including additional requirements for RAIC readers to support the NPS vehicle screening operations, and the purchase and installation of the Digital Video Management software upgrade to operate CCTV cameras for greater functionality, partially offset by savings associated with a change in the life-cycle management plan for the Boarding Pass Security System handhelds and podiums to more closely reflect the assets' useful lives.

##### **2017/18 – 2021/22 Financial Plan**

The plan for non-EDS capital will continue to address CATSA's operational and security enhancements directed towards improving efficiency and effectiveness.

More specifically, the plan accommodates the life-cycle management of the full RAIC system. This consists of the replacement of the RAIC enrollment system and biometric platform with advanced technology in order to gain more efficiency through greater automation and better end-user tools.

The plan also provides for the ongoing life-cycle management of CATSA's systems and tools essential to the delivery of CATSA's mandate. These include CATSA's network infrastructure and corporate systems, as well as equipment and systems in support of screening operations including Boarding Pass Security System handhelds and podiums, and the Screening Officer Training tool.

Lastly, the plan provides for the purchase and deployment of non-EDS equipment and systems in support of the CATSA Plus initiative.

## 4.5 ACCOUNTING AND FINANCIAL MANAGEMENT STRATEGY

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### Overview

This section provides an overview of new and future accounting standards, and CATSA's pro-forma Statement of Financial Position and Statement of Comprehensive Income and Changes in Equity. This section has been designed to create stronger linkage between the Financial Plan in CATSA's Corporate Plan and the financial statements reported in its Annual Report.

#### 4.5.1 New Accounting Standards

CATSA's financial statements are prepared in accordance with IFRS as approved by the Accounting Standards Board of Canada (AcSB).

#### Future accounting changes

As at the date of the 2016/17 audited financial statements, the following applicable new accounting standards, annual improvements, and amendments have been issued, but not yet effective, that may have an impact on CATSA's financial statements. CATSA is currently assessing the extent of their impact.

##### (i) IFRS 9 Financial Instruments

IFRS 9 was issued in July 2014 and is considered the final version, replacing earlier versions of IFRS 9, and completes the project to replace of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a logical model for classification and measurement of financial assets and financial liabilities, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. This standard will become effective for annual periods beginning on or after January 1, 2018, on a retrospective basis. CATSA does not expect there to be any impact on the identification, classification or measurement of its financial instruments as a result of the adoption and implementation of IFRS 9. CATSA is currently analyzing the new requirements related to the impairment of financial assets, although it does not anticipate a significant impact as a result of the new model, as well as changes to disclosure requirements.

##### (ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued to replace IAS 18 *Revenue* and IAS 11 *Construction Contracts* and a number of other revenue-related interpretations. The standard establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This standard will become effective for annual periods beginning on or after January 1, 2018, on a retrospective basis, with earlier application permitted. Due to the nature and volume of its revenue contracts, CATSA does not anticipate a significant impact on its financial statements as a result of adopting and implementing IFRS 15, with the exception of new disclosure requirements.

##### (iii) IFRS 16 Leases

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard will become effective for annual periods beginning on or after January 1, 2019, on a retrospective basis.

## 4.5.2 Pro-forma Financial Statements

This section provides an overview of CATSA's pro-forma Statement of Financial Position and a reconciliation of financial performance in CATSA's pro-forma Statement of Comprehensive Income (Loss) to operating appropriations used.

The pro-forma financial Statements for the period 2017/18 to 2021/22 have been developed based on CATSA's 2016/17 Financial Statements and CATSA's Financial Plan for operating and capital expenditures outlined in this chapter.

### Statement of Financial Position

<b>Table 17 - Statement of Financial Position</b>	<b>Actual</b>	<b>Plan</b>	<b>Plan</b>	<b>Plan</b>	<b>Plan</b>	<b>Plan</b>
<b>(Figures are in thousands)</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash	\$ 36,267	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Trade and other receivables	96,739	96,037	73,153	72,438	69,723	72,024
Inventories	15,729	12,804	10,430	9,208	7,803	7,547
Prepaid expenses	2,996	2,340	2,387	2,435	2,484	2,534
Derivative financial instruments	274	-	-	-	-	-
	<b>152,005</b>	<b>121,181</b>	<b>95,970</b>	<b>94,081</b>	<b>90,010</b>	<b>92,105</b>
<b>Non-current Assets</b>						
Property and equipment and intangible assets						
EDS	388,835	440,965	475,954	499,258	500,465	516,795
Non-EDS	20,524	20,671	21,795	19,323	15,255	9,128
	<b>409,359</b>	<b>461,636</b>	<b>497,749</b>	<b>518,581</b>	<b>515,720</b>	<b>525,923</b>
Employee benefits	19,042	14,988	12,665	10,822	8,609	4,845
Derivative financial instruments	57	-	-	-	-	-
	<b>\$ 580,463</b>	<b>\$ 597,805</b>	<b>\$ 606,384</b>	<b>\$ 623,484</b>	<b>\$ 614,339</b>	<b>\$ 622,873</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Current Liabilities</b>						
Trade and other payables	\$ 132,071	\$ 104,681	\$ 82,132	\$ 81,479	\$ 78,790	\$ 81,273
Deferred government funding related to operating expenses	18,725	15,144	12,817	11,643	10,287	10,081
	<b>150,796</b>	<b>119,825</b>	<b>94,949</b>	<b>93,122</b>	<b>89,077</b>	<b>91,354</b>
<b>Non-current liabilities</b>						
Construction holdbacks	935	1,356	1,021	959	933	751
Deferred lease incentives	688	441	346	251	156	61
Deferred government funding related to capital expenditures	408,959	461,307	497,491	518,394	515,604	525,878
Employee benefits	24,292	26,702	29,113	31,524	33,935	36,345
	<b>434,874</b>	<b>489,806</b>	<b>527,971</b>	<b>551,128</b>	<b>550,628</b>	<b>563,035</b>
<b>Equity</b>						
	<b>(5,207)</b>	<b>(11,826)</b>	<b>(16,536)</b>	<b>(20,766)</b>	<b>(25,366)</b>	<b>(31,516)</b>
	<b>\$ 580,463</b>	<b>\$ 597,805</b>	<b>\$ 606,384</b>	<b>\$ 623,484</b>	<b>\$ 614,339</b>	<b>\$ 622,873</b>

A discussion on key financial highlights to the Statement of Financial Position is provided below.

### Assets

#### Cash

Cash is projected at \$10M throughout the planning period, which represents CATSA's month-end target balance.

### Accounts Receivable

Accounts receivable consist mainly of projected operating and capital appropriations from the Consolidated Revenue Fund that have not been received in cash as of the year-end. Once these funds are received, they are applied against outstanding vendor payables for goods or services received. Accounts receivable also includes projected federal and provincial taxes recoverable and supplemental screening service receivables based on prior year end balances.

### Inventories

Inventories consist primarily of spare parts for the maintenance of CATSA's existing EDS equipment, as well as RAIC cards in support of the RAIC biometric system, and uniforms. The inventory levels are projected to decrease over time as new EDS equipment is deployed with new warranty or maintenance contracts requiring fewer spare parts on hand. In addition, spare parts for the legacy EDS equipment will no longer be required.

### Capital Assets

The capital assets reflect CATSA's existing assets and new deployments planned over the five-year period, net of depreciation. Refer to Section 4.4 of this chapter for CATSA's Capital Plan.

### Liabilities

#### Trade and Other Payables

Trade and other payables consist primarily of vendor payables for goods and services rendered. The annual projection at year-end reflects anticipated spending patterns and are subject to change based on the timing of purchases.

#### Deferred Government Funding Related to Operating Expenses

Deferred government funding related to operating expenses consists of inventories and prepaid expenses balances, and will be recognized in financial performance as inventories are used and the prepaid expenses are systematically recognized in financial performance.

#### Deferred Government Funding Related to Capital Expenses

Deferred government funding related to capital expenditures consists of appropriations used for the purchase of EDS and non-EDS assets, which are deferred and recognized into financial performance on the same basis as the depreciation and amortization of the related assets.

### Employee Benefits

Employee benefits asset and liability represent the projected surplus or deficit of each of CATSA's defined benefit pension plans and its other defined benefit plan. The net position fluctuates annually due to actuarial estimates, assumptions and projections.

## Reconciliation of Financial Performance to Operating Appropriations Used

Reconciling items of financial performance before government funding in CATSA's Statement of Comprehensive Income (Loss) to operating appropriations used are included below.

Table 18 - Reconciliation of Financial Performance to Operating Appropriations Used	Actual	Plan	Plan	Plan	Plan	Plan
(Figures are in thousands)	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
<b>Financial Performance before Government Funding</b>	<b>678,426</b>	<b>720,792</b>	<b>553,437</b>	<b>561,583</b>	<b>564,479</b>	<b>569,967</b>
<b>Non-Cash expenses</b>						
Depreciation and amortization	(52,951)	(63,134)	(75,042)	(84,821)	(87,165)	(92,253)
Employee benefits expense	(5,833)	(6,464)	(4,734)	(4,254)	(4,624)	(6,174)
Impairment of property and equipment	(1,934)	-	-	-	-	-
Write-off of property and equipment and intangible assets	(1,271)	-	-	-	-	-
Loss on disposal of property and equipment	(657)	-	-	-	-	-
Other non-cash transaction	(44)	-	-	-	-	-
Change in fair value of derivative financial instruments at fair value through profit and loss	331	(331)	-	-	-	-
Deferred lease incentives recognized in financial performance	304	247	95	95	95	95
<b>Parliamentary appropriations for operating expenses</b>	<b>616,371</b>	<b>651,110</b>	<b>473,756</b>	<b>472,603</b>	<b>472,785</b>	<b>471,635</b>
<b>Other items affecting funding</b>						
Net change in prepaids and inventories	(446)	(3,581)	(2,327)	(1,174)	(1,356)	(206)
<b>Total Operating Appropriations Used</b>	<b>\$ 615,925</b>	<b>\$ 647,529</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>	<b>\$ 471,429</b>

### Depreciation and Amortization

Property, equipment and intangible purchases are charged against appropriations as purchased, whereas they are expensed as depreciation and amortization over their useful lives under IFRS.

### Employee Benefits Expense

Employee benefits are accounted for in the Statement of Comprehensive Income (Loss) in accordance with IFRS. The reconciling item represents the difference between anticipated cash payments for employee benefits and the accounting expense under IFRS.

### Impairment, Write-off and Loss on Disposal of Property and Equipment

These items represent adjustments made based on the requirements of IFRS and do not reflect any cash expenditures.

### Other Non-cash Transaction

Other non-cash transaction consists of expenses associated with items funded from capital appropriations in prior years that have been transferred to spare parts towards the end of their useful lives and therefore expensed during the year.

### Change in Fair Value of Derivative Financial Instruments at Fair Value Through Profit and Loss

CATSA uses forward foreign exchange contracts in order to manage its exposure to foreign currency risk. As a non-cash entry is required to record these contracts at fair value as per IFRS, a reconciling item is created.

#### Deferred Lease Incentives Recognized in Financial Performance

Deferred lease incentives recognized in financial performance are non-cash adjustments to record the benefit derived from favourable lease terms, which may include significantly reduced rent, free common area costs and leasehold improvements provided at no cost. Rental costs are funded by appropriations when paid, creating a reconciling item.

#### Net change in Prepaids and Inventories

Prepaids and inventories are expensed as the benefit is derived from the asset by CATSA. They are funded by appropriations when purchased, creating a reconciling item.

### **4.5.3 Disposal of Capital Assets**

#### **Overview**

CATSA manages its assets, including asset disposal, as part of a life-cycle management regiment. 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. In these situations, a decommissioning liability will be recorded to address these costs.

In 2009, CATSA purchased 10 Portable Screening Units (PSUs) for a cost of \$4.6M in order to deliver screening services at remote locations in support of the 2010 Vancouver Olympic and Paralympic Winter Games. Following the conclusion of the winter games, the PSUs were stored pending future screening requirements. Recently, the majority of the units were deployed at the airports in order to facilitate the implementation of an interim vehicle screening solution pending the construction of permanent vehicle facilities at the highest risk airports. As the permanent facilities become operational, these units will no longer be required. As a result, CATSA is expressing its intention to sell these units in compliance with the applicable legislation and regulations regarding surplus crown assets. Should the auction not generate any sale opportunities, CATSA will then dismantle the PSUs and recycle all available material, according to the *Disposal Policy*.

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 IFRS.

### **4.5.4 Hedging Foreign Exchange Risk**

In 2016/17, CATSA developed a hedging strategy to reduce its foreign currency exposure as a significant amount of EDS capital equipment is expected to be purchased from US vendors over the planning period. The hedging strategy also encompasses operating expenditures (i.e. equipment maintenance) for contracts denominated in U.S. dollars.

In late 2016/17, CATSA entered into a select number of hedging contracts, on a trial basis, prior to implementing the full hedging strategy. This would ensure a smooth implementation of the hedging strategy for planned purchases starting in fiscal year 2017/18. In early 2017, CATSA entered into hedging contracts in the amount of \$22.6M USD for planned purchases denominated in U.S. dollars. CATSA continues to monitor its future commitments and will enter into new hedging contracts as appropriate as per its approved hedging strategy.

## Glossary

Airport Authority	An operator of an airport listed in the Airport Transfer (Miscellaneous Matters) Act
ASSA	Airport Screening Services Agreements
ATB	Air Terminal Building
BPSS	Boarding Pass Security System: a stand-alone technology that scans boarding passes to validate the information embedded in the bar code
CCTV	Closed-Circuit Television System
Class I Airports	Refers to the airports listed under Schedule 1 of the <i>Canadian Aviation Security Regulation, 2012</i> . These airports have annual passenger traffic in excess of 1 million people, or have a high threat/risk potential.
Class II Airports	Refers to the airports listed under Schedule 2 of the <i>Canadian Aviation Security Regulation, 2012</i> . These airports have one or more of the following characteristics: <ul style="list-style-type: none"> <li>• annual passenger traffic in excess of 200,000 people;</li> <li>• medium threat/risk potential;</li> <li>• primary airport of provincial/territorial capital; or</li> <li>• transit stop for international flights bound for Class I or II airports.</li> </ul>
Class III Airports	Refers to the airports listed under Schedule 3 of the <i>Canadian Aviation Security Regulation, 2012 (CASR)</i> . These airports have scheduled commercial operations, but with a lower traffic volume and lower level of risk than the other classes of airports.
CRP	Corporate Risk Profile
Designated Airports	The 89 airports at which CATSA is responsible for the provision of screening services according to regulations
DRAP	Deficit Reduction Action Plan
EDS	Explosives Detection Systems: manual or automated systems used primarily to check for explosives in carry-on and checked baggage
FBS	Full Body Scanner
HBS	Hold Baggage Screening: the screening of checked baggage using EDS equipment
ICAO	International Civil Aviation Organization
NPS	Non-Passenger Screening: the screening of selected non-passengers accessing restricted areas of airports. Subject to certain exceptions, everyone who has access to restricted/sterile areas in airports is subject to screening.
OAG	Office of the Auditor General
OCOL	Office of the Commissioner of Official Languages
PAA	Program Alignment Architecture: an inventory of all the activities undertaken by a department or agency. The activities are depicted in their logical relationship to each other and to the Strategic Outcome(s) to which they contribute.
PBS	Pre-Board Screening: the screening of passengers, their belongings and carry-on baggage
RAIC	Restricted Area Identity Card: an identification card issued to all employees authorized to enter the restricted areas of Class I and II airports
Screening Contractor	A company that has entered into a contract with CATSA for the provision of PBS, HBS and other screening services
SOP	Standard Operating Procedures
TBS	Treasury Board of Canada Secretariat
TIPS	Threat Image Projection System
WTIM	Wait Time Impact Model
WTMD	Walk-Through Metal Detector