



Summary of the 2008/09 – 2012/13

CORPORATE PLAN, CAPITAL AND OPERATING BUDGETS

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EXECUTIVE SUMMARY

The Canadian Air Transport Security Authority's mission is to protect the public by securing critical elements of the air transportation system as assigned by the government. It is responsible for the delivery of effective and efficient screening of persons and their belongings, prior to gaining access to aircraft or restricted areas of airports. To achieve this, CATSA conducts screening services in the following four mandated areas:

- Pre-Board Screening (PBS): the screening of passengers, their carry-on baggage and their personal belongings;
- Hold Baggage Screening (HBS): the screening of checked baggage;
- Non-Passenger Screening (NPS): the screening of non-passengers (e.g. airport employees, flight crews); and
- Restricted Area Identity Cards (RAIC): the administration of biometric identity cards for non-passengers entering restricted areas.

To better accomplish these statutory obligations, CATSA identified three five-year strategic outcomes and associated initiatives in the *Summary of the 2007/08 – 2011/12 Corporate Plan*. Every initiative that CATSA undertakes has the purpose of contributing to the achievement of one or more of these strategic outcomes:

1. Customer-focused security

CATSA needs the people, processes, equipment and experience to ensure that its approach to its business and security screening programs remains customer focused, that is, perceived as effective and valuable to the travelling public.

2. Capacity

CATSA must build and maintain a talented, engaged, and flexible workforce to meet the needs of a changing environment, and must ensure that people, processes and programs contribute to strengthening its corporate capacity.

3. Recognized expertise

CATSA needs to be recognized as being an expert in its mandated activity – air transport security screening. In order to do so, CATSA must develop performance measuring and reporting capacity, sound business processes and practices, and effective relationships.

In this *Summary of the Corporate Plan* CATSA reports on the status and progress of each initiative as identified in the 2007/08 – 2011/12 Summary – a number of which were in direct response to recommendations resulting from the Office of the Auditor

General Special Examination and the Five-Year Review of the *CATSA Act*. Of the two deficiencies identified by the OAG, particular emphasis has been placed on relations with Transport Canada. Progress has been made in many areas including the work done to prepare a Proposal to the Government of Canada and the establishment of various working groups and Memoranda of Understanding to manage issues of interest to both organizations.

OAG recommendations pertaining to CATSA's Performance Measurement Program are being addressed. CATSA has begun to establish a reporting framework as part of this program, whereby it reports against designated strategic outcomes and initiatives. In the *Summary of the 2007/08 – 2011/12 Corporate Plan*, CATSA said that it would identify specific targets and clear indicators and/or drivers to ensure that its performance measurement framework is fully effective and based on measurable results. While CATSA has begun to address the OAG recommendations, more work needs to be done to fully attain this commitment.

In the absence of defined targets and indicators, this Summary reports on progress against goals identified in last year's Summary, in the form of realized activities and initiatives. The degree to which CATSA progresses both strategically and operationally is greatly influenced by events and trends occurring locally and internationally.

CATSA will continue to work with its government partners to secure long-term, sustainable funding, which will allow it to undertake projects and initiatives that will contribute to achieving its three strategic outcomes. In the meantime, CATSA is submitting its strategic direction based on approved reference levels only. As per the *Financial Administration Act* and the *Crown Corporation Corporate Plan, Budget and Summaries Regulations*, CATSA develops its strategies and formulates its Corporate Plan and Budgets over a five-year planning period.

As outlined in previous summaries, CATSA's responsibility is to maintain and enhance aviation security. In carrying out its strategy, meeting this objective will be CATSA's highest priority.

CATSA's 2008/09 - 2012/13 Corporate Plan, Capital and Operating Budgets was approved in June 2008.

1 CORPORATE PROFILE

INTRODUCTION

The Canadian Air Transport Security Authority (CATSA) is a Crown corporation that reports to Parliament through the Minister of Transport, Infrastructure and Communities.

PROFILE

CATSA was created after the events of September 11, 2001. It focused initially on the immediate need for a federal aviation security screening service. CATSA's initial five years were marked by the requirement to start up a new organization, responsible for critical security screening activities at designated airports, from coast to coast.

In its early years, CATSA focused its operational efforts on developing the competencies, training and performance of security screening officers and deploying major equipment at Canada's airports.

In the next phase of its development, CATSA must continue to concentrate on implementation and consolidation across all its business lines – including management and operational activities at both its corporate headquarters in the National Capital Region, and its regional sites at Canadian airports. While CATSA has achieved much, the organization must remain proactive in the field of aviation security screening in order to continue to provide a secure environment for the travelling public.

CATSA is a complex, national operation with 90 principal locations. Headquartered in Ottawa, it employs 330 staff. In addition, CATSA directs approximately 5,600 screening officers who perform security screening of more than 42 million passengers and their belongings annually at 89 airports from coast to coast.

In line with the 2006 Special Examination by the Office of the Auditor General (OAG), CATSA is addressing a series of recommendations to:

- enhance operations, accountability and performance management; and
- maintain its focus on continuous improvement.

1.1 MISSION, VISION AND VALUES

MISSION

To protect the public by securing critical elements of the air transportation system as assigned by the government.

VISION

To be a world leader in air transportation security through commitment to the mission and through operational and corporate excellence. CATSA's vision will be attained by:

- contributing to a highly secure air transportation system;
- being cost effective;
- striving for excellence;
- networking with partners;
- establishing clear accountabilities;
- being innovative;
- fostering ethics and values; and
- continuously improving implementation of best practices.

1.2 LEGISLATIVE AND REGULATORY FRAMEWORK

LEGISLATIVE, REGULATORY & PROCEDURAL FRAMEWORK

CATSA, as the civil aviation security screening authority for Canada, is also subject to legislation, regulations and procedures explained below:

| Legislation/Regulations/Procedures | Application to CATSA |
|--|---|
| <i>Financial Administration Act Part X</i> | <ul style="list-style-type: none"> Provides the control and accountability framework for parent Crown corporations and their subsidiaries |
| <i>Aeronautics Act</i> | <ul style="list-style-type: none"> Defines all aspects of the Canadian aeronautics system Outlines the authority for creating security regulations and the power of the Minister to create security measures Authorizes the designation of the screening officer States that no person will board an aircraft unless he or she submits to a search of their person and their belongings |
| <i>Canadian Air Transport Security Authority Act</i> | <ul style="list-style-type: none"> Establishes the role of CATSA to conduct screening of persons and their belongings that access aircraft or restricted areas Specifies CATSA's role in ensuring consistent delivery of service across the country and acting in the interest of the general and travelling public |
| CATSA Aerodrome Designation Regulations | <ul style="list-style-type: none"> Includes a listing of the Canadian aerodrome operators that are designated |
| Security Screening Order | <ul style="list-style-type: none"> Provides the measures for screening persons, their personal belongings and their baggage |
| Standard Operating Procedures | <ul style="list-style-type: none"> Guide screening officers in the performance of their duties |

TRANSPORT CANADA RESPONSIBILITIES

The responsibilities for Transport Canada in relation to CATSA include:

- overall leadership of the Canadian aviation security program;
- representing Canada at the International Civil Aviation Organization (ICAO), which sets standards for civil aviation authorities around the world;
- establishing policy and regulation;
- responsibility for compliance monitoring and evaluation; and
- enforcement of aviation security regulations.

1.3 GOVERNANCE AND ORGANIZATIONAL STRUCTURE

INTRODUCTION

In accordance with the *CATSA Act*, CATSA is structured as a Crown corporation with a Board of Directors, including a Chairperson, D. Ian Glen, Q.C., appointed by the Governor in Council on the recommendation of the Minister.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the management of the business, activities and other affairs of the corporation. As part of the overall stewardship responsibility, the Board:

- is responsible for hiring the President and CEO, approving the CEO's objectives for the year and for evaluating and rewarding his performance;
- contributes and approves the strategic direction of the corporate plan for the Authority;
- ensures that the principal risks of the Authority's business have been identified and that appropriate systems to manage these risks have been implemented;
- approves management's succession plan including appointing, training and monitoring senior management; and
- ensures that the Authority's information systems and management practices meet its needs and give the Board confidence in the integrity of information produced.

COMPOSITION OF THE BOARD OF DIRECTORS

The Board is composed of 11 members – one Chair and ten Directors. Two must be representatives of the airline industry and two must be representatives of airport operators. Six new directors were appointed to the Board in 2007/08.

TENURE OF DIRECTORS

Each director holds office for any term of not more than five years that will ensure, as far as possible, the expiry in any one year of the terms of office of not more than half of the directors.

RENEWAL OF TERM

The Governor in Council may renew the term of office of any director for a maximum of one further term of not more than five years.

2008/09 BOARD PRIORITIES

In 2008-09, CATSA's Board of Directors will focus on providing guidance to management on short term and long term planning and continuing to monitor the progress of CATSA's Action Plan regarding the implementation of recommendations made by the OAG in the Special Examination of 2006. This Action Plan has been reviewed favourably by the OAG and places a particular emphasis on improving:

- relations between CATSA and Transport Canada; and
- screening operations.

CATSA'S SENIOR MANAGEMENT TEAM

Senior management at CATSA is led by the President and Chief Executive Officer (CEO) who is appointed by CATSA's Board of Directors and supported by a Senior Management team, as shown below:



1.4 MANDATE AND RESPONSIBILITIES

INTRODUCTION

CATSA is responsible for the delivery of “effective and efficient screening of persons who access aircraft or restricted areas through screening points, the property in their possession or control and the belongings or baggage that they give to an air carrier for transport”.

The legislation also specifies that the delivery of screening services must be done in a consistent manner, and in the public interest.

In November 2002, CATSA’s mandate was expanded by ministerial directive to include the Restricted Area Identity Card (RAIC) and non-passenger screening (NPS).

CATSA’s six mandated activities remained unchanged until September 2007, when the Minister announced that further to the recommendations of the Five-Year Review panel, effective April 1, 2008:

- the Canadian Air Carrier Protective Program will be transferred to the Royal Canadian Mounted Police (RCMP); and
- the Airport Policing Contribution Agreement Program will be transferred to Transport Canada.

CATSA retains responsibility for four areas of aviation security:

- Pre-Board Screening (PBS);
- Hold Baggage Screening (HBS);
- Non-Passenger Screening (NPS); and
- Restricted Area Identity Card (RAIC).

1.4.1 PRE-BOARD SCREENING (PBS)

PRE-BOARD SCREENING

PBS incorporates the screening of passengers, their carry-on baggage and their personal belongings. This is CATSA’s most tangible and visible interaction with the public.

Transport Canada maintains the prohibited items list, while screening officers determine if passengers are carrying any of those items.

Screening officers undertake the following tasks throughout various stages of PBS:

- inspecting boarding passes;
- operating the X-ray machine (for passengers’ carry-on baggage and belongings);
- physical searching of passengers and carry-on baggage;
- operating the Explosives Detection Trace (EDT) equipment; and
- monitoring passengers using the Walk-Through Metal Detectors (WTMD) and/or Hand-Held Metal Detectors (HHMD).

These roles may be combined in some instances, or may be supported by extra screening officers who will encourage people to remove overcoats, separate laptops and certain other electronic items from their carry-on baggage before entering the line, and in the case of transborder flights, remove their shoes.

1.4.2 HOLD BAGGAGE SCREENING (HBS)

HOLD BAGGAGE SCREENING

HBS uses specialized explosives detection systems (EDS) to screen over 60 million pieces of checked baggage every year.

CATSA's work with HBS involves the purchase, installation, testing and maintenance of EDS equipment for designated airports across Canada. The HBS system requires numerous pieces of equipment that can be configured to address the unique space requirements of each airport.

As the deployment phase has been completed, the organization can now focus on:

- re-engineering and optimization of existing systems
- maintaining current equipment;
- testing and evaluation of new equipment and technologies
- life-cycle management
- airport growth; and
- performance measuring and monitoring

1.4.3 NON-PASSENGER SCREENING (NPS)

NON-PASSENGER SCREENING

Screening is conducted on more than 600,000 non passengers every year that access the restricted areas of major airports.

Non-passengers are individuals:

- whose workplace is an airport;
- who visit an airport to provide services or deliver goods; or
- who pass through an airport and require access to the designated restricted areas of airports (e.g. flight crews, airline customer service personnel, caterers, maintenance personnel, baggage handlers).

Mobile screening points are set up inside airports to randomly screen non-passengers going into restricted areas. Six permanent checkpoints have been set up across Canada to screen non-passengers.

1.4.4 RESTRICTED AREA IDENTITY CARD (RAIC)

RESTRICTED AREA IDENTITY CARD

All non-passengers that access the restricted areas of an airport must have a RAIC. The RAIC system, created by CATSA in partnership with Transport Canada and airport authorities, uses biometric identifiers (iris and fingerprint) to allow entrance to the restricted areas of airports. Over 100,000 non-passengers have been enrolled in the program.

It is important to note that the final authority that determines access to the restricted areas of the airport is the airport authority itself.

2 IDENTIFICATION OF RESULTS

2.1 STATUS AND RESULTS FOR 2007/08

BACKGROUND

In the *Summary of the 2007/08 – 2011/12 Corporate Plan*, CATSA focused on attaining three five-year strategic outcomes to enable it to better meet its statutory obligations under the *CATSA Act*. These three strategic outcomes are:

1. Customer-focused security
2. Capacity
3. Recognized expertise

CATSA developed strategic initiatives for each of these outcomes.

In this Summary of the Corporate Plan, CATSA reports on the status and progress of each of these initiatives – a number of which were in direct response to the OAG Special Examination and the Five-Year Review of the *CATSA Act*. The status and/or projected results for the 2007/08 fiscal year for these initiatives against each of the three strategic outcomes are highlighted in the following pages.

SETTING PERFORMANCE MEASURES

CATSA has begun to establish a reporting framework as part of its Performance Measurement Program, whereby it reports against designated strategic outcomes and initiatives. More needs to be done to fully complete this work.

In the *Summary of the 2007/08 – 2011/12 Corporate Plan*, CATSA had said that it would identify specific targets and clear indicators/drivers to ensure that its performance measurement framework is fully effective and based on measurable results. CATSA did not do this for 2008/09.

Many countries are experiencing similar problems with regards to setting performance measures for their air security programs, and one of the ways CATSA is addressing this challenge is through international fora. In particular, this subject will be addressed by CATSA and its international counterparts at the 2008 International Forum for Security Screening in Aviation (IFSSA) conference in Geneva.

In the absence of defined targets and indicators, this chapter will measure progress against goals identified in last year's Summary in the form of realized initiatives and activities.

Over the five-year planning period, Performance Measurement will be the subject of increased attention at CATSA.



2.2 MEASURING PERFORMANCE

CATSA'S PERFORMANCE MEASUREMENT FRAMEWORK

CATSA has developed a performance measurement framework based on best practices for operationally-focused organizations and which is consistent with TBS guidelines. This approach is designed to focus on the achievement of results, emphasize continuous improvement and to manage CATSA's operational and strategic performance and can be seen below:

1. Defined roles and responsibilities within the organization for the measurement and management of performance and for liaison between CATSA and Transport Canada.
2. Developing performance objectives, performance indicators, baselines and targets, trend analysis and reporting by branch.
3. Creating a corporate Performance Measurement facilitation group to act as a centralized resource for implementing the standard methodology outlined in the Performance Based Management Plan.

The framework includes the following key activities:

- defining branch Performance Measurement Plans and setting priorities;
- establishing accountability for performance;
- collecting data, analysis and reporting; and
- monitoring, reviewing and taking action for continuous improvement.

NEXT STEPS

CATSA will continue to work with all levels of management to set priorities for measurement and to identify branch resources and their commitment to performance measurement activities. Performance Measurement plans will be further developed and implemented for each branch.

The Summary of the 2007/08 Corporate Plan presented performance measures for effectiveness, efficiency, consistency and in the public interest. CATSA also committed to reporting on some of these indicators in its 2008/09 Corporate Plan and 2008 Annual Report.

2.3 PROGRESS IN 2007/08

| OUTCOME | INITIATIVE/ ACTIVITY | REFERENCE FROM SUMMARY OF THE 2007/08 – 2011/12 CORPORATE PLAN | RESULT |
|------------------------------|--|---|---|
| Customer-Focused Security | 1 – Enhance PBS efficiency | Continue to evaluate ways to optimize efficiency and maintain security within the current regulatory framework. | <p>CATSA approached Transport Canada with a proposal for increased operational flexibility at PBS. Discussions are ongoing.</p> <p>CATSA is also working with Transport Canada to develop a performance measurement methodology for screening procedures at PBS.</p> |
| Customer-Focused Security | 2 – Integrated and proactive communications | <p>Continue communications activities to maintain and increase satisfaction and confidence among the travelling public.</p> <p>Communicate to the travelling public that screening officers are expertly-trained specialists that care about the security of passengers and their families.</p> | <p>CATSA's awareness campaigns used a mix of earned and paid media, along with a range of promotional materials including public-service announcements on radio and television, pamphlets and kits for travel agents, to reach the Canadian public during peak travelling periods.</p> <p>Communications is shifting its focus from awareness-based campaigns to social marketing. Social marketing is an evidence-based approach using performance measures that will change attitudes, opinion and behaviour over time depending on the tools used. Given that CATSA is trying to reduce the number of prohibited or non-permitted items, including liquids, aerosols and gels that arrive at screening points a social marketing approach will be more effective.</p> <p>In accordance with regulations in the <i>Official Languages Act</i>, a methodology was implemented to establish and confirm which Canadian airports served by CATSA have a significant demand for services in both official languages. A MOU with Statistics Canada has been signed, and surveys to assess demand are scheduled to be conducted at selected airports.</p> |
| Customer-Focused Security | 3 – Increase outreach to public and stakeholders | Continue to build its relationships with the travelling public, Transport Canada and other key stakeholders. | <p>Particular emphasis has been placed on relations with Transport Canada (as noted in the OAG Special Examination and Five-Year Review). Progress has been made in many areas including the establishment of various working groups and MOUs.</p> <p>Attended all Canadian Airports Council Security Committee meetings over the past year to discuss items of mutual interest, in addition to being an active participant in various Advisory Group on Aviation Security (AGAS) activities.</p> <p>Organized a Critical Conversations seminar, moderated by the Carleton University School of Public Policy and Administration, about the role of communication in aviation security. This seminar involved Transport Canada and other stakeholders.</p> |

| OUTCOME | INITIATIVE/ ACTIVITY | REFERENCE FROM SUMMARY OF THE 2007/08 – 2011/12 CORPORATE PLAN | RESULT |
|---|--|--|---|
| | | | <p>Organized and/or participated in a number of conferences including Airports Canada 2007 and the International Forum for Security Screening in Aviation held in Tokyo in June 2007. CATSA also participated in and organized various international and domestic forums including the Canadian Aviation Security Conference (CASC).</p> |
| <p>Customer-Focused Security</p> | <p>4 – Enhance security screening and technology at PBS and HBS</p> | <p>Focus efforts on optimizing the technology deployed over the last five years and explore opportunities of integrating available technologies.</p> <p>Continue to work with vendors and undertake pilot testing of new PBS configurations to explore ways to improve throughput and enhance the screening experience for passengers.</p> | <p>Conducted comprehensive upgrades of PBS and HBS software that resulted in increased efficiency.</p> <p>A Request for Proposals process for maintenance and support of IT and RAIC components is underway. The goal for this is to integrate available technologies, reduce operating costs and enhance current screening processes.</p> <p>Active participant on a number of AGAS technical committees.</p> <p>See initiative #11 “Life-Cycle Sustainability” initiative for details on life-cycle management framework.</p> |
| <p>Customer-Focused Security</p> | <p>5 – Screening officer as a career</p> | <p>Work with screening contractors to create specialization opportunities for screening officers and provide options for development and advancement.</p> | <p>Developed a Workforce Stabilization plan. A career progression and specialization model for screening officer personnel is a component of this.</p> <p>Commissioned wage comparison studies and completed job evaluations and descriptions for screening officers and point leaders.</p> <p>Implemented a recurring learning program for screening officers.</p> <p>Collaborated with La Cité collégiale in Ottawa to launch the Aviation Security program.</p> <p>Based on field testing conducted throughout 2007/08 an enhanced point leader training program that will eventually include certification was implemented in April 2008.</p> |
| <p>Customer-Focused Security</p> | <p>6 – Strengthening response to inquiries, complaints, and incidents</p> | <p>Improve response to customer inquiries, complaints, and incidents by adding additional resources and providing training to staff dedicated to this initiative.</p> | <p>Increased capacity of client relations staff.</p> <p>Specialized training has also been included as part of the training plan. Client relations officers have had screening officer training.</p> |

| OUTCOME | INITIATIVE/ ACTIVITY | REFERENCE FROM SUMMARY OF THE 2007/08 – 2011/12 CORPORATE PLAN | RESULT |
|----------|--|--|--|
| Capacity | 7 – Improving compliance and performance monitoring | Pilot a compliance and performance monitoring program at Toronto’s Pearson International Airport. | <p>Initiated an enhanced oversight pilot project at Toronto (Pearson) airport.</p> <p>Will adopt a partially self-funded approach to oversight by replacing personnel provided by the screening contractors with up to 60 CATSA employees dedicated to operational and contract oversight in Class I airports.</p> <p>Added resources at CATSA headquarters in both performance measurement and financial oversight roles to improve performance and compliance monitoring.</p> |
| Capacity | 8 – Targeting resources to risk | Evaluate the various available screening techniques and approaches to help identify which screening methods are most effective in ensuring prohibited items are prevented from passing security checkpoints. | Working with Transport Canada to identify which screening methods are most effective. |
| Capacity | 9 – Strengthening the screening officer workforce | Work with screening contractors to evaluate each of the jobs a screening officer can perform—PBS, HBS, and NPS—to better understand the skills and competencies required to perform each of the duties. | <p>A new X-Ray Tutor (a software training program to enable screening officers to practice and enhance their skills in X-ray detection) competency standard is being implemented.</p> <p>See initiative #5 “Screening Officer as a Career” and initiative #13 “Improve Working Conditions of Screening Personnel” for more details.</p> |
| Capacity | 10 – Strengthening screening consistency | <p>To strengthen screening consistency, additional resources and capacity will be required for screening support functions in the areas of:</p> <ul style="list-style-type: none"> • national coordination; and • data tracking/analysis of results for HBS and PBS testing. | <p>SOPs have been revised, published and distributed as Version 2.0.</p> <p>Conducting HBS and PBS testing with an improved methodology based on a threat and risk correlation created by CATSA in conjunction with external experts. CATSA and Transport Canada are working closely to review each others’ testing methodologies and results for continuous improvement.</p> <p>CATSA continues to develop, update and maintain CATSA operational plans, bulletins and screening contractor directives.</p> |
| Capacity | 11 – Life-Cycle sustainability | Ensure technology is current and supportable and managed in the most cost effective manner possible. | <p>A life-cycle management framework was finalized which encompasses roles, responsibilities and key processes for capital equipment maintenance and capital asset tracking – from acquisition to disposal.</p> <p>A Life-Cycle Management Steering Committee and working group have been formed, and a life-cycle management</p> |

| OUTCOME | INITIATIVE/ ACTIVITY | REFERENCE FROM SUMMARY OF THE 2007/08 – 2011/12 CORPORATE PLAN | RESULT |
|---|---|---|--|
| | | | <p>policy was developed and approved. A separate draft policy and guidelines for disposal of materiel assets has been developed and is pending approval.</p> <p>CATSA developed the following:</p> <ul style="list-style-type: none"> • forecasts for equipment replacement requirements to aid in long-term financial planning; • a depreciation schedule for key CATSA operational assets; • a formal asset disposal policy to address Treasury Board Secretariat (TBS) and Crown asset requirements and guidelines; and • a developmental study for a Materiel Management Information System. |
| <p>Capacity 12 – Building and strengthening capacity to meet the mandate</p> | <p>Strengthen corporate capacity in phases.</p> <p>Culture shift to talent management.</p> <p>Provide employees with professional development opportunities, specialized training, and coaching and mentoring.</p> | <p>Strengthen corporate capacity in phases.</p> <p>Culture shift to talent management.</p> <p>Provide employees with professional development opportunities, specialized training, and coaching and mentoring.</p> | <p>Commissioned a study to determine the level of ongoing resources required to deliver existing CATSA services at the minimum standards of program integrity. The study identified two categories – sustainability and accountability – within CATSA’s existing responsibilities.</p> <p>Commissioned a review to compare its compensation package to other comparable organizations.</p> <p>A succession planning program has been developed and approved for senior management positions. A new talent review process is being implemented to assist in identifying key positions and potential successors, and a mentoring program has been launched.</p> <p>Continued to develop employee performance management program.</p> |
| <p>Capacity 13 – Improve working conditions of screening personnel</p> | <p>Improve screening officer working conditions by working closely with screening contractors to:</p> <ul style="list-style-type: none"> • review compensation (in line with experience and expertise); • review training techniques and course content; and • review the ergonomic design of PBS checkpoints at airports and the use of technology. | <p>Improve screening officer working conditions by working closely with screening contractors to:</p> <ul style="list-style-type: none"> • review compensation (in line with experience and expertise); • review training techniques and course content; and • review the ergonomic design of PBS checkpoints at airports and the use of technology. | <p>Consultations with external experts.</p> <p>Conducted cross-country reviews to gather suggestions from screening officers for operational improvements. Results determined that working conditions need improvement and strategies have been developed to achieve this. An integrated approach is being taken to address stability within the screening officer workforce and to improve working conditions.</p> <p>Initiated an action plan to develop and implement a national pre-qualification assessment program for screening contractors.</p> |

| OUTCOME | INITIATIVE/ ACTIVITY | REFERENCE FROM SUMMARY OF THE 2007/08 – 2011/12 CORPORATE PLAN | RESULT |
|----------------------|---|---|--|
| | | <p>Review screening officer duties and responsibilities and focus on working conditions to identify potential improvements.</p> <p>Examine the possibility of implementing benefit plans to improve attraction and retention of candidates.</p> | |
| Capacity 14 – | Review screening delivery model | Review the current screening delivery model prior to the expiration of existing contract extensions. | With the assistance of third-party experts, a review of the four service delivery models that are permitted under the <i>CATSA Act</i> was undertaken. Upon the recommendation of the committee, CATSA decided to continue with the existing third party service delivery model. |
| Capacity 15 – | Secure long-term, sustainable funding and reference levels | Develop options for a long-term, sustainable funding framework starting in 2008/09. | <p>In cooperation with CATSA and Central Agencies, Transport Canada developed a Proposal to the Government of Canada in order to secure sustainable funding for the planning period from 2008 to 2011.</p> <p>Through the A-base Review and a wait-time study, a robust costing model was developed for all program activities and corporate infrastructure. An independent third party was also engaged to ensure that the process is transparent and accurate, and to verify the accuracy and rationale of assumptions used to develop cost estimates.</p> |
| Capacity 16 – | Enhanced planning, execution, and measurement | <p>Continue to implement Security Management System (SeMS) at all levels of the organization.</p> <p>Find new and innovative ways to measure security in terms of CATSA's legislative mandate.</p> | <p>Transport Canada is continuing to work on SeMS and has indicated that CATSA is on the right course in implementing this.</p> <p>To support assessment and continuous improvement, a CATSA SeMS assessment process to identify gaps and develop and implement action plans has been initiated.</p> |
| Capacity 17 – | Enhancements to governance practices | Adopt governance best practices and improve compliance with statutory requirements. | <p>Implemented a code of conduct and ethical behaviour for Board Directors.</p> <p>Updated the travel and hospitality policy for Board Directors whereby they now proactively disclose their travel and hospitality expenses on the CATSA website.</p> <p>Developed an orientation training program for new Board Directors which includes specific information on the governance of Crown corporations.</p> |

| OUTCOME | INITIATIVE/ ACTIVITY | REFERENCE FROM SUMMARY OF THE 2007/08 – 2011/12 CORPORATE PLAN | RESULT |
|----------------------|--|---|---|
| Capacity | 18 – Enhanced infrastructure | Investigate means to consolidate business applications (e.g. portal technology). | <p>Expanded the use of a central registry to be used for storage of financial records/invoices in accordance with TBS retention policies and directives.</p> <p>Developed a training program to provide knowledge and awareness of the use of the existing automated records and document information management system.</p> <p>Deploying an automated reporting tool to assist in the tracking of projects across the organization.</p> <p>Actively investigating the use of collaboration and communication tools which will be used across the organization.</p> |
| Recognized Expertise | 19 – Leverage screening expertise | Explore opportunities to leverage screening expertise to formulate risk-based approaches to screening. | <p>The management of security incidents at screening checkpoints by airport authorities have been developed and approved by Transport Canada. These include a threat and risk assessment protocol which has been tested (working together with Transport Canada) at four airports.</p> <p>See initiative #8 "Targeting resources to risk" for more details.</p> |
| Recognized Expertise | 20 – Strengthen relationship with shareholder | CATSA's Board of Directors and senior management will seek to maintain the Minister's confidence by according the highest priority to the Minister's expectations for CATSA, and by providing the Minister with regular progress reports in writing and verbally through meetings with the Chair. | CATSA is working with the Office of Crown Corporation Governance at Transport Canada and the Office of the Comptroller General. |
| Recognized Expertise | 21 – Demonstrate continued leadership within the governance community | <p>CATSA will benchmark itself against other Crown corporations and acquire additional knowledge of best practices.</p> <p>Corporate governance best practices will be established and implemented.</p> <p>Compliance with high governance standards will contribute to increased confidence in CATSA, resulting in greater organizational credibility.</p> | <p>Participation in a forum of discussion with corporate secretaries from other Crown corporations.</p> <p>Undertook a comparative study of the Corporate Planning processes of several other key Crown corporations and government organizations.</p> |

| OUTCOME | INITIATIVE/ ACTIVITY | REFERENCE FROM SUMMARY OF THE 2007/08 – 2011/12 CORPORATE PLAN | RESULT |
|----------------------|--|---|---|
| Recognized Expertise | 22 – Enhancing business processes and financial systems | Continue to document business policies and processes. Continue to roll out corporate financial management system. | CATSA is undertaking many new initiatives to improve business policies and processes, and corporate financial management systems including: <ul style="list-style-type: none"> • implementation of an updated procurement and contracting policy has been approved; • completion of a draft hospitality and travel policy and a capital assets policy; • implementation of the Shared Travel Services Initiative; • enhancements to CATSA’s Capital Assets Module project; and • piloting of the Commitment to Pay project. <p>See initiative #16 “Enhanced planning, execution and measurement” for more details on SeMS.</p> |
| Recognized Expertise | 23 – Leverage equipment expertise | Explore opportunities with Transport Canada to leverage its expertise in the areas of equipment evaluation and testing, technology assessment, and system acceptance and certification. | A working group has been established to explore and expand opportunities to leverage shared expertise with a focus on operational equipment evaluation, testing, technical assessment and system acceptance. |

3 OPERATING ENVIRONMENT

INTRODUCTION

As a government Crown corporation with a responsibility for aviation security screening nationwide, CATSA's operations can be greatly affected by events and trends occurring locally and internationally.

3.1 THREATS

THE EVOLVING THREAT ENVIRONMENT

Canadian government officials, open source material, the intelligence community and law enforcement officials have indicated that civil aviation continues to be at risk for terrorist attack. Recent events around the world have confirmed that aircraft and airports remain attractive as potential terrorist targets. These events have also confirmed that terrorists continue to identify new ways to circumvent aviation security systems. These events include:

- the in-flight destruction by bombing of two passenger airplanes in Russia that occurred in August 2004;
- the planned bomb attack on an Israeli airliner at Frankfurt Airport in Germany, foiled in November 2006;
- an alleged plot to blow up buildings, fuel tanks and pipelines at New York City's JFK International Airport, foiled in June 2007; and
- the failed attempt to detonate a vehicle loaded with gas canisters into Scotland's Glasgow Airport in July 2007.

Since the tragedy of September 11, 2001, the event that has perhaps had the greatest impact on CATSA's operations was the discovery, by British authorities in August 2006, of a plot to use liquid explosives to attack trans-Atlantic flights that resulted in changes to the security measures in use at the time. Had this plot been successful, it would have achieved mass destruction with thousands of lives lost and had an enormous economic impact with destruction consequences for international air travel. This thwarted plot also demonstrated that, not only are terrorists still targeting aircraft, they are devising innovative techniques and strategies, which place pressure on security authorities to continually improve their detection capabilities and to make use of advances in technology.

Indeed, the Special Examination by the OAG acknowledged that one of the challenges that CATSA faces is operating in a high-risk environment where one incident could lead to potential disaster and where, although most passengers pose no threat, screening staff need to be vigilant at all times.

3.2 CAPITAL AND LIFE-CYCLE MANAGEMENT PLAN

TECHNOLOGY LIFE-CYCLE

Keeping abreast of technology improvements is crucial to CATSA's success in delivering a secure and sustainable aviation security screening system. Some equipment is approaching the end of its useful life which, based on depreciation schedules, is currently estimated at between seven and 11 years with refurbishment. Over the next five years, the explosives detection and older PBS X-ray equipment and metal detectors will have reached their life expectancy and will no longer meet international equivalency.

EQUIPMENT CAPACITY

The introduction by the Minister in August 2006 of new screening measures pertaining to liquids, aerosols and gels at PBS continues to put pressure on CATSA's HBS equipment, as much higher volumes of personal belongings are being placed in checked baggage.

The result is that CATSA's equipment is operating at full capacity sooner than anticipated.

INNOVATION

The effective execution of CATSA's security programs relies on the optimal use and functioning of available technology, not only on the front lines, but also at CATSA's headquarters where some critical oversight roles and analysis functions are performed. Over the next five years, CATSA will need to look at new technologies that can provide benefits to its security screening programs, as well as its communications, software applications and internal security systems.

NEW TECHNOLOGIES

An important consideration when designing a replacement schedule for aging equipment is the need to assess new technologies that will not only be more reliable, but will perform new functions to detect new and emerging threats.

EVOLVING INTERNATIONAL SECURITY STANDARDS

Canada is also subject to international pressures to employ security systems that are capable of addressing new and emerging threats to aviation.

Canada has developed a plan to keep pace with international trends and to start to address any potential security gaps that could make it vulnerable to terrorist attack.

3.3 SCREENING WORKFORCE

INCREASED DEMAND AND A SHORTAGE OF SCREENING OFFICERS AND POTENTIAL RECRUITS

The need for screening officers is continuously increasing, while overall high levels of attrition are having a direct impact on efforts to maintain adequate personnel levels. Continued passenger growth and an ever-evolving threat environment highlight the need to attract and retain an experienced screening officer workforce.

In some airports, CATSA's screening contractors have experienced continual shortages of screening officers and potential recruits. This is particularly reflected in areas where there is a high demand for workers in other sectors, which allows the labour force to be selective in their employment.

COMPENSATION

CATSA has recognized screening officer compensation as a major attraction and retention issue and has consulted with experts, who support the need to address this issue as a priority.

Compensation issues will present an upward pressure on CATSA's budget that must be accommodated to maintain current service levels.

IMPACT

At current rates of attrition, 1,200 new screening officers are required per year and the total cost of initial training is in the range of \$6 million annually. A more stable, experienced workforce would reduce such costs, minimize the potential of security breaches and result in CATSA operating more effectively and efficiently.

3.4 GROWTH

INCREASING PASSENGER VOLUMES

Transport Canada statistics continue to show that the number of travellers choosing air transportation is increasing year after year. Globalization and the integration of Canada's economy with other markets around the world are leading to increasing numbers of domestic and international travellers.

In the last five years, the number of passengers has increased by 28%. Transport Canada expects this trend to be maintained with passenger volumes to increase between four and five percent per year. Regardless of all these pressures CATSA must still meet the security requirements defined in the regulations.

LIQUIDS, AEROSOLS AND GELS

The introduction of new measures in August 2006 (following the discovery by British authorities of the plot to blow up airliners with liquid explosives) regarding the screening of liquids, aerosols and gels has compounded the pressure on growth and capacity. These measures initially caused congestion at the screening checkpoints, which had the potential to cause confusion and security issues, as large numbers of passengers arrived with previously permitted but now restricted items (e.g. bottled water). An additional screening officer was placed at the entry point to PBS to proactively assist passengers.

To address the new liquids, aerosols and gels measures, additional resources were received in 2007/08 from the Government of Canada. The additional screening necessary due to these measures is now a long-term requirement that needs to be addressed with long-term resources.

AWARENESS OF REGULATIONS

CATSA has initiated various communications programs and initiatives to inform the public of screening requirements, particularly following the introduction of the new measures concerning the carriage of liquids, aerosols and gels into the aircraft cabin. Despite this, a lack of awareness concerning the carriage of these now restricted items continues to persist; there are still considerable amounts of them being intercepted every day.

OTHER TRENDS

In addition to evolving security threats and growing passenger volumes, a number of other growth-related developments within the aviation sector will have an impact on CATSA's operations.

Larger aircraft

The introduction of larger aircraft such as the Airbus A380 will put pressure on CATSA's screening checkpoints. This means that a larger number of passengers will be passing through the same number of screening lines.

Aging population

The desire to travel by an aging baby boomer population will likely impact on CATSA as a growing number of people with special needs or with mobility limitations pass through PBS checkpoints. This could create the potential of creating increased wait times for the PBS process unless adequate adjustments are made to screening capacity.

3.5 LEGISLATION AND REGULATIONS

INTRODUCTION

CATSA is subject to Part X of the *Financial Administration Act* (FAA). As a Crown corporation, CATSA is required to:

- maintain financial and management control and information systems, and management practices, that provide reasonable assurance that its assets are safeguarded and controlled;
- ensure that its financial, human, and physical resources are managed economically and efficiently; and
- ensure that its operations are carried out effectively.

SPECIAL EXAMINATION

CATSA is required under the FAA to have a Special Examination of its systems and practices completed at least once every five years by the OAG.

CATSA's Special Examination took place in 2006; the resultant recommendations by the OAG were covered in depth in *CATSA's Summary of the 2007/08 – 2011/12 Corporate Plan, Capital and Operating Budgets*.

CATSA developed a comprehensive action plan to address all of the recommendations which was contingent on receiving additional funding as requested in the Proposal to the Government of Canada in Fall 2007.

FIVE-YEAR REVIEW OF THE CATSA ACT

Section 33 of the *CATSA Act* requires that the Minister conduct a review of CATSA's activities mandated by this legislation during the fifth year after the legislation was enacted, and to report to Parliament on the findings.

An advisory panel appointed in November 2005 was tasked to conduct this review. *Flight Plan: Managing the Risks in Aviation Security*, the report resulting from the Panel's work was tabled by the Minister in Parliament on December 12, 2006. The Advisory Panel's recommendations were also covered in detail in *CATSA's Summary of the 2007/08-2011/12 Corporate Plan, Capital and Operating Budgets*.

On September 4, 2007 the Minister announced the following decisions:

- the Minister of Transport, Infrastructure and Communities remains responsible for aviation security;
- CATSA remain a Crown corporation and retain its screening mandate;
- CATSA retain the flexibilities present in the current legislation;
- the Canadian Air Carrier Protection Program be transferred to the RCMP;
- the Airport Policing Contribution Program be transferred to Transport Canada; and
- CATSA continue to manage the RAIC program.

SERVICE DELIVERY MODEL

Sections 6 and 7 of the *CATSA Act* provide CATSA with the following options for delivering screening:

- third-party service provider (screening contractor);
- direct employment (CATSA's own employees); and
- through agreements with aerodrome operators (and/or aerodrome subcontractor).

CATSA's Board of Directors and management committed to reviewing the screening service delivery options in advance of the 2008/09 expiration of the current contract extensions to ensure that CATSA operates under the option that is most appropriate.

An ad hoc committee of CATSA's Board of Directors was formed to oversee the Service Delivery Model Review process and provided input to the recommendations. Overall it was found that while the other models had strengths, on balance, the current third-party screening contractor model is best. The committee recommended to the Board a screening contractor model that is similar to the model currently used.

CATSA's Board of Directors approved this model in September 2007.

REGULATORY REVIEW

The Advisory Panel on the Five-Year Review of the *CATSA Act* recommended "as a high priority" that Transport Canada develop a more results-based regulatory framework for aviation security. Transport Canada has launched a major, multi-year review of the aviation security regulatory framework to make it more risk- and performance-based.

During this review CATSA will work with Transport Canada to provide input to support changes to the regulatory framework. As part of this overall initiative, CATSA is in the process of developing its own performance measurement framework.

TRANSPORT CANADA/ CATSA RELATIONS

The Government of Canada is responsible for the legislation of National Security Policy and has mandated Transport Canada to be the responsible regulatory body for aviation security policy and regulations. CATSA has the responsibility to operate aviation security programs according to its current mandated responsibilities.

At Transport Canada's request, CATSA has participated in discussions on the following topics, which are currently being studied also by Transport Canada and could potentially have an impact on CATSA's operations:

- air cargo security;
- security designation of airports;
- the development of security plans for airports; and
- RAIC Phase II.

4 STRATEGIC DIRECTION

DETERMINANTS OF STRATEGY

Inputs to the Corporate Plan for the 2008/09 to 2012/13 planning period include:

- CATSA's strategic direction, based on its three strategic outcomes (described in following sections);
- letters of guidance and expectations from the Minister of Transport, Infrastructure and Communities;
- the *CATSA Annual Report 2007*;
- CATSA's Corporate Risk Profile;
- CATSA's action plans developed in response to the OAG Special Examination;
- the work being done by the Transport Canada/CATSA Steering Committee and working groups analyzing the recommendations of the report of the advisory panel on the Five-Year Review of the *CATSA Act*; and
- allotment of one year of additional funding in Budget 2008.

4.1 IMPACT OF BUDGET 2008 ON CATSA'S PLANNING

FUNDING NEXT STEPS

In consultation with Transport Canada, CATSA will be seeking operational flexibilities, and it is possible that CATSA will have to request program integrity funding for shortfalls in 2008/09. CATSA will have to secure additional long-term funding to sustain its activities.

4.2 LEGISLATIVE MANDATE AND FIVE-YEAR STRATEGIC OUTCOMES

FOCUS

Consistent with the strategic direction detailed in the *Summary of the 2007/08 – 2011/12 Corporate Plan, Capital and Operating Budgets*, CATSA will, in 2008/09, continue to focus, to the best of its ability, on advancing the three key strategic outcomes which will enable the organization to better meet its statutory obligations under the *CATSA Act*.

4.3 CUSTOMER-FOCUSED SECURITY

DESCRIPTION

In realizing this strategic outcome, CATSA needs the people, processes, equipment and experience to ensure that its approach to its business and security screening programs remains customer focused, that is, perceived as effective and valuable to the travelling public.

INITIATIVES

Initiatives pertaining to customer-focused security that CATSA will work with Transport Canada to complete include:

- 1) **Fixed-Base Operations** – A portion of the one-year funding for the preparation of the 2010 Vancouver Winter Olympics approved in the 2008 Budget will support a pilot project utilizing mobile screening facilities to provide screening at fixed-base operations during the Olympic period.
- 2) **Communications** – CATSA plans to continue to inform travellers regarding recommendations and requirements for the packing of carry-on and checked baggage. By providing reliable information to Canadians, CATSA ensures that travellers are better prepared when going through the screening process. Greater education may also enhance the screening process by reducing wait times at PBS, the number of intercepted items, incidents and complaints.

4.4 CAPACITY

DESCRIPTION

In order to implement recommendations from the OAG Special Examination and the Five-Year Review of the *CATSA Act*, CATSA needs to strengthen its capacity. CATSA must build and maintain a talented, engaged, and flexible workforce to meet the needs of an evolving environment, and must ensure that people, processes and programs contribute to strengthening its corporate capacity.

INITIATIVES

Over the planning period, CATSA will be entering a new phase of capital planning with respect to technology and screening equipment. Since the creation of CATSA six years ago, the focus has been on deployment and integration of systems into airports. This focus will now evolve to:

- maintenance;
- equipment optimization;
- performance measurement;
- life-cycle management; and
- airport growth.

Capital planning initiatives include, but are not limited to:

- the replacement of aging PBS and HBS equipment;
- maintaining an adequate stock of spare parts and back-up machines to ensure that baseline service standards are maintained; and
- upgrading PBS and HBS equipment for increased detection capability.

Various technology and equipment initiatives supporting these objectives are planned to be undertaken over the planning period, though some cannot begin under current funding.

In addition, CATSA will work with Transport Canada on a funding solution that will address a number of other capacity-related initiatives, including:

- 1) **New technologies** – Keeping pace with international standards, in regard to technological advancements, is crucial to CATSA's success in delivering a secure and sustainable aviation security screening system.
- 2) **Harmonizing screening procedures with those of international partners** – An inability to harmonize CATSA's screening procedures with those of international partners could lead to additional measures, such as the re-screening of flights, which would impose additional costs and delays on Canada's airlines, and could compromise Canada's ability to retain a position of trust with key partners in terms of the integrity of its systems and equipment.
- 3) **Airport expansions** – CATSA offers financial support for known airport expansion projects in terms of equipment for capacity requirements, such as additional screening lines, as well as facility and space requirements for screening operations at new terminals.
- 4) **Operational enhancements** – The importance of improving oversight and monitoring was supported in both the OAG Special Examination and in the *CATSA Act* Review, and accordingly, CATSA plans to improve its oversight and monitoring role and its ability to measure and report on performance as it relates to its mandate.

4.5 RECOGNIZED EXPERTISE

DESCRIPTION

In order to continue to realize its strategic objectives, CATSA needs to be recognized as being an expert in its mandated activity – air transport security screening. Since its creation, CATSA has worked to develop considerable expertise within its mandated areas of activity and continues to do so. By achieving recognized expertise, CATSA solidifies and maintains confidence from the government – its shareholder and regulator, as well as stakeholders and the travelling public.

To achieve the strategic outcome of recognized expertise, CATSA needs to develop performance measuring and reporting capacity, sound business processes and practices, and effective relationships. This will enable CATSA to continue to demonstrate to the travelling public, the Government of Canada, and major stakeholders such as the airline industry and airports that its expert screening will ensure a high level of security.

INITIATIVE

An initiative that will occur during the planning period, related to the strategic outcome of recognized expertise is:

- 1) **Winter 2010 Olympic and Paralympic Games** – In close collaboration with Transport Canada, CATSA prepared a plan to address heightened security screening requirements for a 57 day period around the 2010 Vancouver Winter Olympic and Paralympic Games. CATSA received one year of funding for the preparation of the 2010 Vancouver Winter Olympics in the 2008 Budget, and will seek additional funding for 2009/10.

4.6 CONCLUSION

CONCLUSION

CATSA's strategic direction is designed to ensure the organization focuses on conducting air transportation screening effectively, efficiently, consistently, and in the public interest; according to the legislative mandate prescribed in Section 6 of the *CATSA Act*. Based on this mandate CATSA focuses on its three key strategic outcomes which are the keystones for CATSA's corporate strategy and strategic planning framework.

CATSA's Action Plan to address the recommendations of the Five-Year Review and OAG Special Examination identified that remedial action would be contingent on receiving additional funding, and that Action Plan was received favourably by the Minister and the OAG.

This Summary is based on approved funding levels as required by the government. CATSA's responsibility is to maintain security, and in carrying out its strategy, meeting this objective will be the highest priority.

5 FINANCIAL ANALYSIS

INTRODUCTION

CATSA is accountable to Parliament, through the Minister of Transport, Infrastructure and Communities, and must fully disclose its financial statements in its Corporate Plan.

However, pursuant to subsection 32(2) of the *CATSA Act*, CATSA must keep confidential, any information the publication of which, in the opinion of the Minister of Transport, Infrastructure and Communities, would be detrimental to air transport security or to public security, including financial and other data that might reveal such information. For that reason, financial data contained in this chapter is limited in detail.

HISTORY OF CATSA FUNDING

Budget 2001 allocated an initial five-year funding envelope of \$1.942B through 2006/07. Budget 2005 added \$85M to fund airport expansions in Toronto and Vancouver that were not known in 2001. In Budget 2006 and in addition to the A-base funding of \$234M, CATSA was given a two-year program integrity funding of \$211M, for fiscal years 2006/07 and 2007/08. CATSA also obtained one-year program integrity funding of \$41M in 2007/08 for the regulation concerning liquids, aerosols and gels as well as requirements for additional screening lines to meet expansion projects at Toronto airport's Pier F and Quebec City airport. For the expansion at Quebec City airport, CATSA is receiving \$1.95M in 2008/09.

Over the first five years of operation, passenger traffic grew by 28% resulting in program integrity challenges, which continued to be funded on a temporary basis. In the fall of 2007, CATSA submitted a request for long-term funding for the three-year period of 2008/09 to 2010/11. CATSA received funding in the amount of \$181M for 2008/09 only through Budget 2008.

5.1 KEY IMPACTS ON CATSA'S FINANCING

FUNDING

Budget 2008 provided one-year funding for 2008/09. Beginning in 2009/10, CATSA's budget reverts to the original A-Base operating funding of \$234M and \$0 for capital.

SIGNIFICANT CHANGE IN CORE ACTIVITY

Starting in 2008/09, the Canadian Air Carrier Protective Program and the Airport Policing Contribution Program are transferred to the RCMP and Transport Canada respectively.

SCREENING OPERATIONS AND CAPITAL PLAN

Projected growth in passenger traffic and increases in wages will continue to exert pressure on CATSA's financial resources. Screening contractor costs are forecast to increase not only with the increase in demand for screening hours but also in response to increases in wages. Funding for 2008/09 provides for increases in passenger traffic and wage increases; with growth beyond projected levels to be accommodated through reductions in other costs.

Capital funding for 2008/09 provides for limited replacement and refurbishing of screening equipment.

5.2 ACCOUNTING AND FINANCIAL MANAGEMENT STRATEGY

5.2.1 NEW FINANCIAL REPORTING STRATEGIES

NEW ACCOUNTING STANDARDS

CATSA's financial planning, management and reporting are governed by Part X of the *Financial Administration Act*, which requires CATSA to prepare its financial statements according to Canadian generally accepted accounting principles (GAAP). New accounting standards have been introduced and will be evaluated to determine the extent of their impact on CATSA's financial statements.

5.2.2 INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

INTRODUCTION

The Accounting Standards Board of Canada (ASB) has announced the adoption of the International Financial Reporting Standards as Canadian general accepted accounting principles (GAAP). This means a new set of Financial Statements reporting standards which should be fully implemented by 2011.

IMPLEMENTATION PROCESS

The implementation process will be as follows:

| Year | Required activities |
|------|--|
| 2008 | <ul style="list-style-type: none">• Scoping exercise• Impact assessment• Disclosure of implication |
| 2009 | <ul style="list-style-type: none">• Quantification of IFRS implications• Note disclosure explaining the full extent of the impact |
| 2010 | <ul style="list-style-type: none">• Preparation of an opening balance sheet based on IFRS in preparation for full implementation of comparative Financial Statements |
| 2011 | <ul style="list-style-type: none">• Implementation complete• CATSA will issue financial statements according to IFRS |

CATSA PREPARATION

The implications for CATSA of implementing IFRS will be significant as the accounting standards are complex, broad in scope and for the foreseeable long term.

In preparation for the implementation of IFRS, CATSA has begun a high-level scoping exercise to determine the impact and establish the foundation for a comprehensive detailed implementation plan to be developed in 2008/09 and in accordance with the ASB's prescribed implementation schedule.

5.3 PLANNED PERFORMANCE 2007/08-COMPARISON OF FORECAST TO PLAN

5.3.1 OPERATING EXPENDITURE FORECAST

INTRODUCTION

The following analysis compares the forecast to the amended corporate plan operating budget of \$400.4M for 2007/08. Table 1 displays operating expenditures by type.

TABLE 1 - OPERATING EXPENDITURES BY TYPE

(in thousands of dollars)

| | 2007/08 Forecast | 2007/08 Amended Corporate Plan |
|---|------------------|--------------------------------|
| Payments to screening contractors and Policing Programs | \$289,616 | \$294,233 |
| Training and certification | 7,871 | 7,059 |
| Uniforms, other screening related costs & consumables | 7,369 | 8,618 |
| Equipment maintenance and spare parts | 32,612 | 35,235 |
| Restricted Area Identity Card (RAIC) | 724 | 937 |
| Employee costs | 33,408 | 34,649 |
| Travel and business related costs | 2,912 | 3,446 |
| Professional services | 5,626 | 5,050 |
| Communications and public awareness | 2,630 | 2,261 |
| Other administrative expenses | 11,646 | 12,632 |
| Total Operating Expenditures | \$394,414 | \$404,120 |
| Interest Revenue, Foreign Exchange Gain and Other Items | \$(3,830) | \$(3,720) |
| Surplus | 9,816 | - |
| Total Budget | \$400,400 | \$400,400 |

SCREENING OPERATIONS

Payments to screening contractors and policing programs

Payments to screening contractors are lower than budgeted due to a competitive labour market, which has made it difficult to staff screening officer vacancies; screening contractors not meeting some of the performance pay criteria; and delays in the completion of screening lines at several airports.

Training and certification

The forecast increase in training costs reflects the cost of addressing challenges to retain screening officers, in some parts of the country. This takes into account high rates of attrition which has resulted in an increased need for the training of new officers. New training requirements for screening officers have also contributed to higher training and certification costs.

Uniforms, other screening-related costs and consumables

The forecast decrease in spending is primarily due to lower than expected purchases of consumables and a delay in the purchase of scheduling software.

SCREENING OPERATIONS

Equipment maintenance and spare parts

Costs associated with the operation and maintenance of explosives detection equipment are directly related to deployment schedules and life-cycle management.

For 2007/08, the forecast decrease in equipment maintenance and spare parts costs is due to a more favourable US exchange rate; lower than anticipated performance bonuses as some major service contractors did not meet the targets; and higher penalties incurred by the service contractors for not meeting service levels.

RESTRICTED AREA IDENTITY CARD (RAIC)

Phase I of the RAIC program was completed as of January 2007 and the program has now moved into a maintenance mode.

Expenses are forecast slightly lower than expected due to a lower than anticipated airport staff turnover which, in turn, decreases the demand for new cards and card renewals.

DIRECT ADMINISTRATION AND CORPORATE

Employee costs

The forecast decrease in employee costs is primarily due to lower than budgeted benefits and slower than expected staffing, partly offset by a planned payment to reduce the pension plan deficit.

Travel and business related costs

Additional travel costs were forecast to be spent on travel to the sites to configure the new Security Identification and Time Tracking System (SITT) and to train screening contractor management on the use of the system. Forecast expenditures are lower than budgeted.

Professional services

Professional services are higher than budget due to the implementation of a number of projects in response to recommendations resulting from the OAG Special Examination and the Five-Year Review of the CATSA Act.

Communications and public awareness

A small increase to the Communications budget is attributed to the provision of web banners displayed on the websites of key stakeholders, airports and airlines. The objective of the banners is to educate the public on CATSA's mandate.

Other administrative expenses

Other administrative expenses consist of office and computer expenses, network and telephony, insurance, and rent and facility related costs. Forecast spending is lower than budgeted.

5.3.2 CAPITAL EXPENDITURE FORECAST

INTRODUCTION

The following analysis and Table 2 compare the forecast to the amended corporate plan capital budget of \$52.6M for 2007/08, adjusted for the capital re-profiled.

TABLE 2 - CAPITAL EXPENDITURES

(in thousands of dollars)

| | 2007/08 Forecast | 2007/08 Amended Corporate Plan |
|--------------------------------------|------------------|--------------------------------|
| EDS Equipment and RAIC | | |
| PBS equipment and installation | \$8,114 | \$6,800 |
| HBS equipment and installation | 28,962 | 32,697 |
| Restricted Area Identity Card (RAIC) | 4,958 | 4,958 |
| | 42,034 | 44,455 |
| Non EDS Equipment | | |
| Security Systems | 6,299 | 6,799 |
| Office furniture & equipment | 1,800 | 1,300 |
| | 8,099 | 8,099 |
| Total Capital Expenditures | \$50,133 | \$52,554 |
| Surplus | \$2,421 | \$- |
| Total Budget | \$52,554 | \$52,554 |

EDS CAPITAL AND RAIC

The majority of CATSA's total capital budget is dedicated to the acquisition and deployment of EDS equipment required to meet regulatory requirements for screening and to maintain international equivalency with respect to new equipment technology. The requirement for equipment is driven both by increasing passenger traffic and by airport expansion projects. CATSA does careful planning after consulting with the airports. However, the airports' plans are sometimes modified during the year. Therefore, it is sometimes necessary to move funds from one fiscal year to the next to ensure that screening service requirements are met at all times. The estimated expenditure for EDS equipment for 2007/08 is lower than expected due to delays in the installation of equipment for airport expansion.

As a result of delays in 2006/07 in airport projects, implementation of RAIC Phase II and the introduction of security learning and reporting systems, \$20M was re-profiled to 2007/08. An additional \$33M was re-profiled to 2008/09 for scheduled changes for expansion projects at the Winnipeg, Montreal and Calgary airports. A further \$3M has been requested to be re-profiled to 2008/09 for RAIC Phase II. Subsequently, \$6.05M was approved and received in program integrity funding as a result of an advance in the project implementation schedule for Quebec City airport with an additional \$1.95M to be received in 2008/09.

NON-EDS CAPITAL

Non-EDS capital includes funding for security learning and reporting systems, essential for monitoring and improving screening officer skills, as well as office furniture and equipment and leasehold improvements.

\$7.3M was re-profiled to 2008/09 (\$2.9M from the Security Learning Systems and \$4.4M from the Security Reporting system) due to the timing of funding approvals, which caused delays in the start of some projects. The remaining projects planned to be completed in 2007/08 are progressing according to schedule.

5.4 OVERVIEW OF THE FINANCIAL PLAN FOR 2008/09 TO 2012/13

5.4.1 OPERATING BUDGETS AND PLANS

OPERATING BUDGETS AND PLANS

CATSA's core operating budget is comprised of screening operations, RAIC and direct administration and corporate services. The operating budget and plans for the 5-year corporate plan period are driven by the funding received for fiscal year 2008/09 and the implications of a return to reference levels of \$234M for the remaining years 2009/10 to 2012/13.

Table 3 shows the operating forecast for the planning period by type of expenditure.

**TABLE 3 -
OPERATING EXPENDITURES BY TYPE**

(in thousands of dollars)

| | 2007/08 Forecast | 2008/09 Plan | 2009/10 Proj | 2010/11 Proj | 2011/12 Proj | 2012/13 Proj | Five Year Total |
|---|------------------|------------------|------------------|------------------|------------------|------------------|--------------------|
| Payments to screening contractors and Policing Programs (1) | \$289,616 | \$251,859 | \$151,598 | \$151,598 | \$151,598 | \$151,598 | \$858,251 |
| Training and certification | 7,871 | 8,554 | 3,466 | 3,466 | 3,466 | 3,466 | 22,418 |
| Uniforms, other screening related costs & consumables | 7,369 | 9,436 | 6,108 | 6,108 | 6,108 | 6,108 | 33,868 |
| Equipment maintenance and spare parts | 32,612 | 39,303 | 20,647 | 20,647 | 20,647 | 20,647 | 121,891 |
| Restricted Area Identity Cards (RAIC) | 724 | 937 | 675 | 675 | 675 | 675 | 3,637 |
| Employee costs | 33,408 | 41,599 | 33,148 | 33,148 | 33,148 | 33,148 | 174,191 |
| Travel and business related costs | 2,912 | 3,624 | 2,882 | 2,882 | 2,882 | 2,882 | 15,152 |
| Professional services | 5,626 | 6,611 | 2,720 | 2,720 | 2,720 | 2,720 | 17,491 |
| Communications and public awareness | 2,630 | 1,705 | 1,690 | 1,690 | 1,690 | 1,690 | 8,465 |
| Other administrative expenses | 11,646 | 14,068 | 12,095 | 12,095 | 12,095 | 12,095 | 62,448 |
| Total Operating Expenditures | \$394,414 | \$377,696 | \$235,029 | \$235,029 | \$235,029 | \$235,029 | \$1,317,812 |
| Interest Revenue, Foreign Exchange Gain and Other Items | (3,830) | - | (675) | (675) | (675) | (675) | (2,700) |
| Surplus | 9,816 | - | - | - | - | - | - |
| Total Budget | \$400,400 | \$377,696 | \$234,354 | \$234,354 | \$234,354 | \$234,354 | \$1,315,112 |

(1) Excludes funding for Policing Programs, effective April 01, 2008

SCREENING OPERATIONS

Payments to screening contractors

Market driven wages for screening officers are causing CATSA's payments to screening contractors to increase, particularly in highly competitive labour markets, such as Alberta. An increase in wages of 4.3% has been included in the budget for 2008/09.

Furthermore, a key factor in the demand for screening services is increasing passenger volume. Transport Canada's forecast cumulative increase of 21.3% by 2012/13 equates to an increase in the number of screening officers required from approximately 5,700 in 2008/09 to 7,200 in 2012/13.

Training and certification

The cost for training and certification for 2008/09 remains at a constant level when the increase in wages is factored in.

Equipment maintenance and spare parts

The increase in the cost of maintenance and spare parts for 2008/09 is primarily attributable to the scheduled maintenance coverage in large airports and higher levels for spare parts due to the aging equipment and slower replacement of older equipment.

RESTRICTED AREA IDENTITY CARD (RAIC)

Now that Phase I of the RAIC program has been fully implemented, expenses for the next five years, will be associated with the maintenance of equipment and the purchase of card stock for the enrolment of new employees.

DIRECT ADMINISTRATION AND CORPORATE SERVICES

Employee costs

Over the planning period (2008/09 to 2012/13), additional staff is being added to address current and future priorities and ongoing requirements, especially the significant increases in screening operations due to forecasted growth in passenger traffic. Resources to address corporate challenges will come from internal reallocations as well as additions to both regional and headquarters personnel to address increased workload pressures and are reflected in the planned budget. The number of employees will increase from 300 in 2007/08 to 390 in 2008/09, which includes 60 new oversight officers.

Other operating costs

Other operating costs, such as travel, professional services and administrative expenses are forecast to increase in fiscal year 2008/09 to support core activities.

Communications and public awareness

The planned budget for communications for 2008/09 has been reduced from 2007/08 levels and remains static for the four years from 2009/10 to 2012/13, reflecting a return to an annual reference level of \$234M.

5.4.2 CAPITAL BUDGETS AND PLANS

CAPITAL BUDGET AND PLANS

The capital plan for the corporate plan period reflects the single year's funding for 2008/09. Table 4 presents the forecast capital budget over the planning period.

**TABLE 4 -
CAPITAL EXPENDITURES**

(in thousands of dollars)

| | 2007/08 Forecast | 2008/09 Plan | 2009/10 Proj | 2010/11 Proj | 2011/12 Proj | 2012/13 Proj | Five Year Total |
|--|------------------|-----------------|--------------|--------------|--------------|--------------|-----------------|
| EDS Equipment and RAIC | | | | | | | |
| PBS equipment and installation | \$8,114 | \$11,082 | \$- | \$- | \$- | \$- | \$11,082 |
| HBS equipment and installation | 28,962 | 49,017 | - | - | - | - | 49,017 |
| Restricted Area Identity Card (RAIC) | 4,958 | 3,000 | - | - | - | - | 3,000 |
| 2010 Vancouver Olympics | - | 5,283 | - | - | - | - | 5,283 |
| Total Capital Expenditures - EDS Equipment and RAIC | \$42,034 | \$68,382 | \$- | \$- | \$- | \$- | \$68,382 |
| Non EDS Equipment | | | | | | | |
| Security Systems | \$6,299 | \$14,273 | \$- | \$- | \$- | \$- | \$14,273 |
| Office furniture & equipment | 1,800 | 353 | - | - | - | - | 353 |
| Total Capital Expenditures - Non EDS Equipment | \$8,099 | \$14,626 | \$- | \$- | \$- | \$- | \$14,626 |
| Total Capital Expenditures | \$50,133 | \$83,008 | \$- | \$- | \$- | \$- | \$83,008 |
| Surplus | 2,421 | - | - | - | - | - | - |
| Total Budget | \$52,554 | \$83,008 | \$- | \$- | \$- | \$- | \$83,008 |

EDS CAPITAL AND RAIC

CATSA's complement of over 2,500 pieces of critical screening equipment is rapidly reaching peak capacity and some equipment is approaching the end of its useful life, requiring replacement.

Capital funding for 2008/09 provides for limited replacement and refurbishing of screening equipment. CATSA will also be able to initiate the implementation of a program of systems re-engineering and optimization and a program for performance measuring and monitoring at select airports.

Capital plans beyond 2008/09 are pending approval of capital funding for future years.

NON-EDS CAPITAL

Non-EDS capital includes equipment required to support security learning and reporting systems as well as furnishings and equipment for regional support centres, to accommodate the new oversight officers, and corporate headquarters. It also includes information technology and information management (IT/IM) requirements.

Once capital funding is approved for 2009/10 and beyond, CATSA will be able to address these requirements and fully respond to recommendations put forward by the OAG to improve oversight and compliance monitoring.

DISPOSAL OF CAPITAL ASSETS

After seven years of operation, CATSA is renewing some of its equipment to meet its operating requirement and under a five-year Capital Plan that received policy approval in November 2007. In carrying out its mandate, the corporation is empowered, under the *CATSA Act*, to dispose of outdated capital assets. Most of the capital assets that are used by the Corporation are specialized equipment and have limited use outside of the "airport-type" operation in the commercial world. Therefore, the value of the used equipment is relatively low. During the next five years, the corporation may have to dispose of certain pieces of equipment as and when required. In some cases, the corporation will be incurring cost when disposing of equipment to comply with environmental laws and regulations.

5.4.3 2010 WINTER OLYMPICS AND PARALYMPICS

2010 WINTER OLYMPICS AND PARALYMPICS

Funding is included for the increased demand for CATSA's screening operations before and during the 2010 Winter Olympics and Paralympics.

CATSA requires additional funding to implement the required heightened security screening activities at airports. Budget 2008 has approved funding for the acquisition of capital equipment only. Operating funds will be requested for 2009/10, the year of the Olympics.

5.5 SUMMARY OF THE FINANCIAL PLAN

FINANCIAL PLAN

The following Annex summarizes Operating and Capital Budgets for the planning period 2008/09 to 2012/13 by mandated programs and corporate activities.

| | March 31/07 Actual | March 31/08 Forecast | March 31/09 Budget | March 31/10 Planned | March 31/11 Planned | March 31/12 Planned | March 31/13 Planned |
|---|-----------------------|-------------------------|-----------------------|------------------------|------------------------|------------------------|------------------------|
| CAPITAL EXPENDITURES | | | | | | | |
| <i>(in thousands of dollars)</i> | | | | | | | |
| Acquisition of new equipment: | | | | | | | |
| Explosives detection systems | \$75,146 | \$37,076 | \$65,382 | \$0 | \$0 | \$0 | \$0 |
| Restricted area identification card | 3,639 | 4,958 | 3,000 | - | - | - | - |
| Non-passenger screening | (764) | - | - | - | - | - | - |
| Security learning and reporting systems | 3,363 | 6,299 | 14,273 | - | - | - | - |
| Local support centres | 158 | 400 | - | - | - | - | - |
| Corporate services | (144) | 1,400 | 353 | - | - | - | - |
| Surplus | - | 2,421 | - | - | - | - | - |
| Total Capital Expenditures | \$81,398 | \$52,554 | \$83,008 | \$0 | \$0 | \$0 | \$0 |
| OPERATING EXPENDITURES | | | | | | | |
| <i>(in thousands of dollars)</i> | | | | | | | |
| Operating Expenditures (before depreciation): | | | | | | | |
| Pre-board screening | \$181,244 | \$210,245 | \$227,749 | \$132,052 | \$132,052 | \$132,052 | \$132,052 |
| Air security related policing programs and hold baggage screening | 120,012 | 134,599 | 95,327 | 57,853 | 57,853 | 57,853 | 57,853 |
| Restricted area identification card | 4,037 | 1,625 | 2,319 | 2,400 | 2,400 | 2,400 | 2,400 |
| Non-passenger screening | 10,843 | 13,408 | 14,083 | 11,128 | 11,128 | 11,128 | 11,128 |
| Corporate services | 31,975 | 34,537 | 38,218 | 31,596 | 31,596 | 31,596 | 31,596 |
| Other operating expenses (funding) | (662) | (3,830) | - | (675) | (675) | (675) | (675) |
| Surplus | - | 9,816 | - | - | - | - | - |
| Total Operating Expenditures | \$347,449 | \$400,400 | \$377,696 | \$234,354 | \$234,354 | \$234,354 | \$234,354 |
| Total Capital Expenditures | \$81,398 | \$52,554 | \$83,008 | \$0 | \$0 | \$0 | \$0 |
| Total Expenditures | \$428,847 | \$452,954 | \$460,704 | \$234,354 | \$234,354 | \$234,354 | \$234,354 |

GLOSSARY

| | |
|---------------------|--|
| AGAS | Advisory Group on Aviation Security |
| Airport Authority | An operator of an airport listed in the <i>Airport Transfer (Miscellaneous Matters) Act</i> |
| CATSA | Canadian Air Transport Security Authority |
| CEO | Chief Executive Officer |
| Class I Airports | Airports with annual passenger traffic in excess of 1 million people, or with a high threat/risk potential |
| Class II Airports | Airports with one or more of the following characteristics: <ul style="list-style-type: none"> • annual passenger traffic in excess of 200,000 people; • has a medium threat/risk potential; • is the primary airport of provincial/territorial capital; or • is a transit stop for international flights bound for Class I or II airports |
| Designated Airports | The 89 airports at which CATSA is responsible for the provision of screening services according to regulations |
| EDS | Explosives Detection Systems: manual or automated systems used primarily to check for explosives in carry-on and checked baggage |
| EDT | Explosive Detection Trace |
| FAA | <i>Financial Administration Act</i> |
| HBS | Hold Baggage Screening: the screening of checked baggage using EDS equipment |
| HHMD | Hand-Held Metal Detector |
| ICAO | International Civil Aviation Organization |
| IT | Information Technology |
| MOU | Memorandum of Understanding |
| NPS | Non-Passenger Screening: the screening of selected non-passengers accessing restricted areas of airports. Non-passengers include flight crews, refuellers, caterers, aircraft groomers, maintenance and construction personnel, baggage handlers, and concession staff |
| OAG | Office of the Auditor General |
| PBS | Pre-Board Screening: the screening of passengers, their belongings and carry-on baggage |
| Point Leader | Supervises screening officers at all screening checkpoints |
| RAIC | Restricted Area Identity Card: an identification card issued to all employees authorized to enter the restricted areas of Class I and II airports |

GLOSSARY

| | |
|----------------------|--|
| RCMP | Royal Canadian Mounted Police |
| Screening Contractor | A company that has entered into a contract with CATSA for the provision of PBS, HBS and other screening services |
| Screening officer | An employee of the screening contractor who carries out screening services |
| SeMS | Security Management System |
| SOPs | Standard Operating Procedures |
| TBS | Treasury Board Secretariat |
| WTMD | Walk-Through Metal Detector |