

Business Plan

FY2017-18 to FY2019-20



 **Ontario Northland**

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EXECUTIVE SUMMARY

Guided by the *Moving Forward* initiative, Ontario Northland's 2017-18 business plan outlines our upcoming priorities, together with an analysis and evaluation of our transformation accomplishments to date for all of our operating divisions.

This business plan includes details on our organizational strategic priorities and direction, performance measures, risk assessment, business environment, financial profile, and FY2017-18 to FY2019-2020 deliverables.

Ontario Northland has momentum and is continuing to achieve great results and significant operational bottom line savings. There is no question that this will continue in order to ensure that our Northern transportation agency continues to provide essential transportation services and significant economic development support in the North now and for the next 100 years.

After a period of uncertainty about our future, in late 2014 Ontario Northland embarked on a period of transformation. Since then we have made a remarkable turnaround and are now firmly focused on our goal of becoming a dynamic, successful transportation agency delivering efficient, cost-effective services that promote economic development, job creation and community sustainability.

As this business plan clearly shows, we are already well on our way to achieving all of our goals, and we have detailed the steps we will take that will ensure our success.

Operationally, Ontario Northland will continue to concentrate on containing/reducing costs while providing ever-better service, and growing our business in a strategic, responsible manner, taking into account potential risks.

Having achieved significant and unparalleled industry changes to our nine collective agreements that cover 85 per cent of our workforce – giving us years of labour stability and costs competitive with other transportation companies – our human resources focus is now on engaging and empowering our employees through workforce planning, leadership training programs and improved support.

To confirm our ongoing performance, guide future improvement and measure our transformation success, we will be implementing a set of Key Performance Indicators (KPIs) at all levels: organization wide, program, project and individual.

1.0 Introduction

The Ontario Northland Transportation Commission (Ontario Northland) is an agency of the Government of Ontario and reports to the legislature through the Minister of Northern Development and Mines.

Ontario Northland was created by the Ontario government in 1902 to provide transportation services in northeastern Ontario. With a long and storied history, Ontario Northland has helped to shape the identity of the North.

But the North has changed over the years and Ontario Northland must adapt to that change.

In April 2014, the Minister of Northern Development and Mines announced that the Government of Ontario was committed to transforming Ontario Northland to ensure:

- sustainable employment
- continued economic growth
- a strong transportation network in Northern Ontario

Recognizing the unique requirements of transportation in the North, the government directed the agency to embark on a major transformation that would put in place the conditions for its success.

1.1 Legislative Mandate

Ontario Northland's mandate is to:

- continue to provide and ensure efficient, safe and reliable transportation services in Northern Ontario throughout the transformation process
- support transformation efforts and prepare assets and business lines for transformation activities subject to the approval of the government

The services Ontario Northland provides are:

- Motor Coach
- Polar Bear Express (passenger train services between Cochrane and Moosonee)
- Rail Freight
- Remanufacturing and repair for the company's rail freight and Polar Bear Express, and for external customers

1.2 Organization Profile

Responsible for providing regional leadership in transportation services to Northern Ontario, Ontario Northland employs over 700 people in 18 cities and towns. It currently serves a population of about 500,000 spread over an area of 266,000 square kilometers – the size of Great Britain. Ontario Northland's transportation network connects to other motor coach operators in Southern Ontario and major railways in North Bay, Hearst and Rouyn Noranda, providing seamless access to the North American railway system.

Headquartered in North Bay, Ontario Northland has a Corporate Services division and three operating divisions:

- Passenger Services
- Rail Services
- Remanufacturing and Repair (RRC)



The recent past

The past decade has been a challenging one for Ontario Northland. Mining and forestry, the two most important industries in the North, continued to experience downturns, resulting in a reduction in freight revenues. At the same time, the introduction of ride sharing, lower fuel prices and a declining population meant limited growth in bus passenger service.

In March 2012, the Ontario government announced it would divest itself of all of Ontario Northland's assets, citing that its services were no longer sustainable.

Between then and early 2014, the Northlander passenger train was cancelled, the Niska ferry service was transferred to Owen Sound Transportation Company, and Ontario Northland's telecommunications division, Ontera, was sold to Bell Aliant.

Then, in 2014, the government announced that Ontario Northland would remain in public hands and in the fall, with a new executive, transformation planning and employee/community

engagement sessions would begin. In March 2015, with a new commission in place, Ontario Northland began an aggressive business transformation, *Moving Forward*, to establish:

- more cost-effective business practices through cost reduction/containment and strategic growth
- a culture of continuous improvement
- greater accountability and controls
- enhanced service delivery and customer satisfaction

Ontario Northland Today

Moving Forward provides Ontario Northland with a road map and the following guiding principles for transformation:

- understand cost drivers and reduce operational expenses
- engage experts to improve and streamline business processes and mentor employees through this cultural transformation
- evaluate infrastructure, establish an inventory of assets and an asset management strategy aligned with a comprehensive 10-year capital plan
- investigate and implement new opportunities to increase revenue with a focus on diversifying business across all divisions aligning with government priorities for establishing good jobs, implementing innovative multimodal solutions, providing a seamless transportation network and promoting green solutions that reduce greenhouse gas emissions
- ensure a culture of continuous improvement through employee engagement programs aimed at promoting innovative thinking

Urgency for change has permeated throughout the organization and momentum and morale is at an all-time high. Significant cost reduction has been realized totaling 25% reduction in operating subsidy, with the current business plan projecting a total operating subsidy reduction of 35% from FY2014-15 to FY2019-20.

FACT: Ontario Northland implemented 149 major business process improvements and reduced operating expenses by 25% (\$10 million).

2.0 Strategic Direction

2.1 Vision, Mission and Values

Our Vision

Ontario Northland will remain the transportation leader in Northern Ontario, providing efficient, valued and vital transportation solutions, including rail passenger and rail freight service, motor coach service, the Cochrane Station Inn, and remanufacturing and repair services for passenger cars, freight cars and locomotives.

Our focus will be on business and employee excellence, innovation and collaboration. We will establish cost-effective business practices, transform to a culture of continuous improvement and operate more efficiently and effectively enabling a sustainable Ontario Northland.

As employees we will take pride in our work and our workplace. We will promote a culture of open communication, fairness, diversity and creativity that will move us forward as a secure and valued workforce.

Our Mission

Our motto is: *Moving people. Moving goods. Moving forward.* As an agency of the Crown, Ontario Northland supports and promotes economic development, job creation and community sustainability.

Our vital transportation services promote access to work, health care, education, goods and services within the region and between Northern Ontario and other regions throughout North America.

We also support top priorities within the mandates of a number of other provincial ministries, including Northern Development and Mines, Transportation, Health and Long Term Care, Environment and Climate Change, Tourism, Culture and Sport, Infrastructure, Agriculture, Food and Rural Affairs and Municipal Affairs. Ontario Northland is critical to the government's *Growth Plan for Northern Ontario, the Northern Ontario Multimodal Transportation Strategy* and substantially supports achievement of climate change targets to reduce Green House Gas emissions.

Our Values

By choosing to live these values, Ontario Northland employees share accountability for helping achieve efficient and valued transportation solutions for the next 100 years.

- accountability
- customer satisfaction
- positive team/work environment

- safety
- continuous improvement

2.2 Strategic Priorities/Direction

Since December 2014, Ontario Northland has been focused on transforming into a dynamic, sustainable organization, guided by *Moving Forward*.

Some of these priorities have been accomplished, including:

- transforming the North Bay shop facility from a division focused on mechanical maintenance of internal Rail assets, with only one major external customer, to an efficient commercial centre capable of delivering passenger, freight car and locomotive remanufacturing and repair work in to both Ontario Northland and external customers at full cost recovery
- successfully transitioning and consolidating daily mechanical locomotive servicing from North Bay to Cochrane by creating a rail maintenance centre hub
- re-establishing Englehart as the headquarters for rail infrastructure
- confirming service and agency efficiencies in motor coach operations while balancing transportation needs across Northern Ontario
- modernizing business and information systems to improve cost-effectiveness and enable prompt decision making

Others priorities are ongoing, including:

- reviewing and updating organizational structure to ensure an appropriate and sustainable workforce
- creating a culture of continuous improvement and a tradition of constructively challenging the status quo
- enhancing internal and external communications
- increasing marketing and sales efforts for all services
- collaborating with communities with the shared goal of strengthening Ontario Northland and the communities of Northern Ontario
- updating corporate systems, policies and services to enable the Divisions to achieve their goals

- Continuing to enhance internal controls and capacity to support government directives and reporting requirements

2.3 Strategic Growth Potential

Among the areas we have identified for growth potential are:

- partnerships with other provincial transportation agencies and ministries
- bus service for communities across Northern Ontario aligned with MTO's business modernization initiative
- freight and passenger rail services that align the Northern Ontario Multimodal Transportation Strategy

3.0 PLANNED DELIVERABLES

3.1 Direction for 2017-18 to 2019-2020

Transformation will continue with a view to long-term sustainability, driven by:

- an understanding of cost drivers and a focus on cost containment
- new revenue generation and diversification of services, supporting economic growth in Northern Ontario
- an ability to be nimble in response to changing customer demands/needs

To promote transformation, between FY2017-18 and FY2019-20, Ontario Northland will:

- develop a performance measurement strategy that includes identifying critical performance indicators, establishing baseline measurements and identifying benchmarks
- launch an organization-wide leadership development program
- adopt industry best practice frameworks (e.g. Lean, Six Sigma) to embed lean behaviour and promote a shift to a culture of continuous improvement
- adjust service levels to meet current needs as cost efficiently as possible
- leverage technology where appropriate

When transformation is complete, Ontario Northland will be a high performance, innovative organization with engaged employees who are proud to be valued leaders in the transportation industry.

Passenger Services will provide modern bus, parcel and express freight services, including a newly refurbished Polar Bear Express, aligned with passenger volumes and mandated service provision

Rail Services will continue to support economic growth in Northeastern Ontario, providing the most cost-effective and cleanest transportation options to current and new customers

RRC will provide Ontario Northland Rail and its customers from across North America with high quality rehabilitation and repair services delivered externally at full cost recovery, generating employment and spin-off economic activity throughout Northern Ontario

3.2 Passenger Services – Motor Coach and Polar Bear Express

Motor Coach Bus Service

Ontario Northland's motor coach bus service operates 365 days a year, transporting more than 240,000 passengers and over 220,000 parcels. Our 25 coaches travel 3.9 million route kilometers a year. We also operate the Cochrane Station Inn, a 23-room, boutique hotel – the only hotel located inside a train station in Canada.



To streamline and improve our bus service while containing/cutting costs, we have already:

- evaluated our station operations to find efficiencies and contain costs and explored other options (e.g. leasing space)

We are/will be:

- optimizing bus routes
- reducing travel time between many origins and destinations by introducing additional “semi-express” service
- evaluating opportunities for new routes based on cost/benefit analyses
- identifying key performance indicators, and tracking and benchmarking our performance
- conducting an evaluation of our bus maintenance program, one of our largest cost drivers, to find ways to cut costs

FACT: 30% of Motor Coach Services’ tickets are now purchased online.

In FY2017-18 we will be analyzing the value of moving to compressed natural gas (CNG) motor coaches, which require less maintenance and emit less pollution.

We are also investigating new revenue opportunities, including selling advertising space in or on our coaches.

Another major focus of Motor Coach Bus Services is improved customer service.

We are/will be:

- introducing new information systems and business processes, which will lead to improved capacity planning, safety and security measures and passenger experience
- continuing to upgrade buses and stations with advanced technology (e.g. Wi-Fi access, e-tickets, bus tracking)
- adapting our reservation and ticketing systems for use on mobile devices
- introducing passenger self-service and a choice of additional fare types
- developing a new Passenger Charter and rolling out a customer service training plan
- surveying customer satisfaction and travel plans via multiple mediums (e.g. website, Wi-Fi pop ups)

Ontario Northland Motor Coach Bus Service also operates a bus parcel express service.

To address cost drivers related to that service, we are/will be:

- introducing a new automated system for waybill and tracking

- reviewing our tariff and rates to align with industry standards

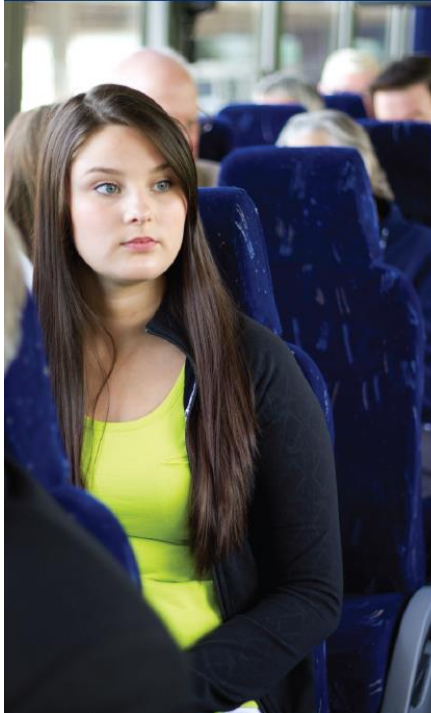
We are also investigating new sources of revenue, including:

- pursuing new business contracts
- exploring the possibility of door-to-door service by partnering with local community couriers

Specific to the Cochrane Station Inn, is working to create sustained occupancy year-round by focusing on getting contracts with:

- business and industry
- tourism clients

MOVES FORWARD: Passenger Services: delivering significant cost savings



Charged with finding ways to contain costs, increase efficiency and improve revenues, Ontario Northland's Motor Coach Bus Service division rolled up its sleeves and took a good hard look at all aspects of its business, from ticketing and routes to coaches and stations. The result? Savings of over \$1.1 million a year to date – by creating some semi-express routes aligned with customer feedback, tightening connection times, closing two underused stations, reducing service with extremely low ridership while still supporting communities, and introducing online ticketing. Says director of passenger services Tracy MacPhee, "We're pleased with how our transformation has gone so far, but it's an ongoing process. We're soliciting passenger input, which has already led to enhancements such as Wi-Fi access, electrical outlets on all coaches and e-tickets."

Rail Passenger Services: Polar Bear Express

Introduced in 1964, the Polar Bear Express (PBX) provides an essential link for people and businesses in the North – the only year-round ground transportation connecting Cochrane to Moosonee and the James Bay Coast.

We’re refurbishing the PBX train and, as tourism opportunities in the Far North grow, we’re also positioning ourselves to align with First Nations tourism initiatives to support the renewed growth.

We’ve embarked on a five-year project to upgrade and modernize the Polar Bear Express. The first refurbished passenger coach was delivered in August, 2016, with all 16 expected to be in service by 2019-20.

The new PBX will feature:

- updated passenger cars with accessible washrooms, enhanced luggage space and electrical and USB charging
- dining cars
- a unique family car with a play area for children

We already have:

- introduced a new reservation/ticketing system to improve passenger management by offering online ticket sales, reserved seating and information

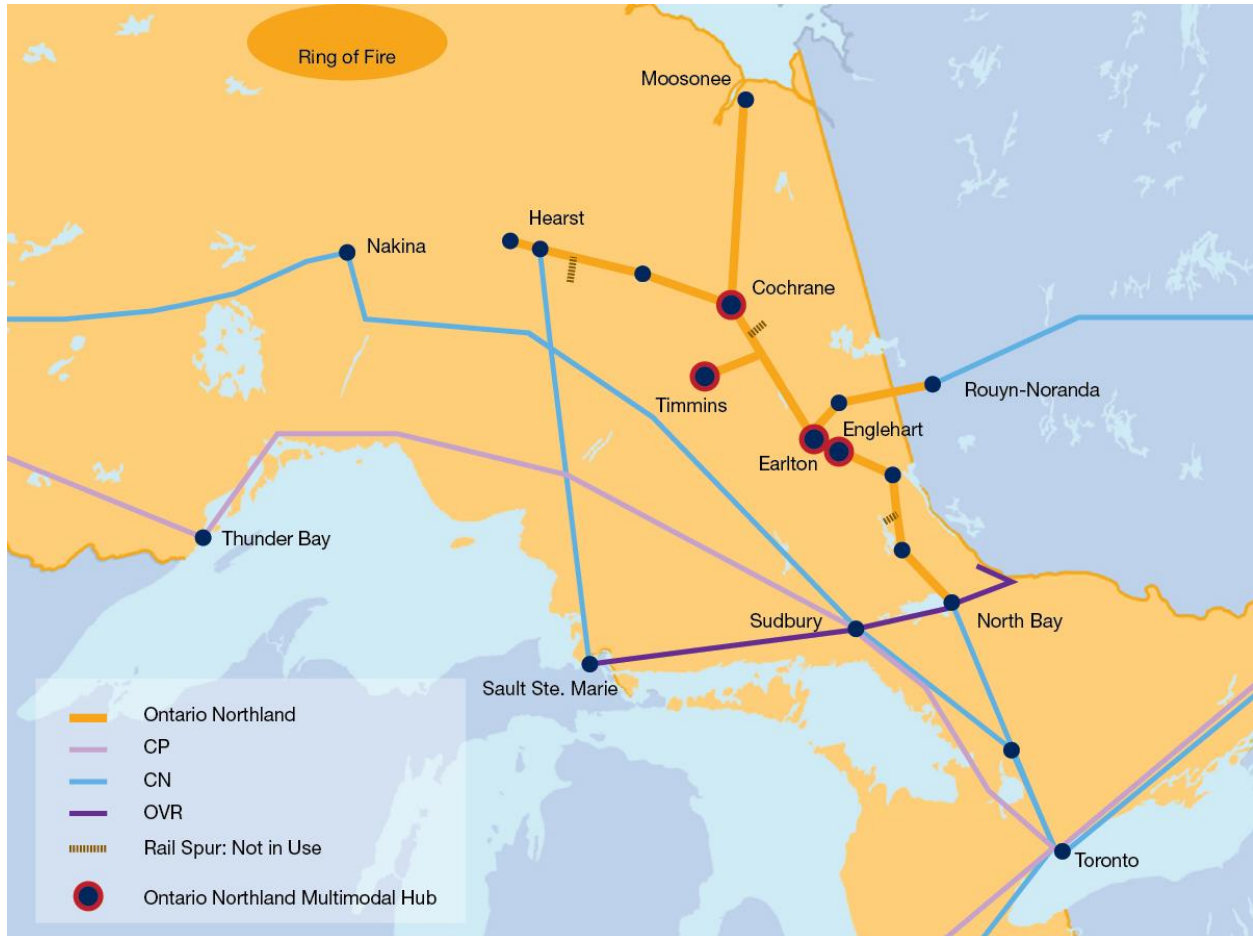
We are/will be:

- collaborating with communities, including First Nations, to increase commuter and tourism ridership
- reviewing and updating rail parcel express shipment pricing and tariffs



3.3 Rail Services

Ontario Northland's Rail Service division plays an essential role in connecting the North to the world, enabling northern businesses to compete nationally and internationally.



Our rail service also helps to reduce motor traffic, road maintenance costs and greenhouse gas emissions.

Since transformation began, the Rail Service division has restructured and is continuing to analyze cost drivers in order to increase efficiency and reduce operating costs.

We are/will be:

- lessening our dependence on a small number of large customers and focusing instead on attracting many new, smaller customers (which also supports small business growth in Northern Ontario)
- implementing lean manufacturing and process improvement (e.g. quality measures, performance metrics, leadership training) in our mechanical department

FACT: We maintain 675 miles (1086 km) of track on our main line.

FACT: There is an additional 179 miles (288 km) of yard, siding and branch lines

- moving routine locomotive maintenance from North Bay to Cochrane, increasing asset utilization by reducing out of service days and creating capacity in North Bay for completing Ontario Northland's major locomotive overhaul work and attracting new revenue generating business from rail customers across North America
- establishing "rail hubs" at strategic locations to support multiple clients in one location and provide more efficient and cost-effective shipping solutions to off-rail customers
- exploring new revenue streams, including rail car storage

We have also developed a Railway Safety Management System, which has been approved by Transport Canada and have – and continue to -- undertake systematic, comprehensive studies to ensure our bridges, grade crossings and tracks comply with new federal regulations.

Finally, we are introducing a set of Key Performance Indicators (KPIs) to confirm ongoing performance, guide future improvement and measure our transformation success over the next several years.

MOVES FORWARD: Ontario Northland's Rail Service Division picks up steam



The decision to move the majority of locomotive maintenance from North Bay to Cochrane has proved to be a win-win for Ontario Northland's Rail Service division.

The Cochrane shops, which used to service the Polar Bear Express (PBX) as well as Ontario Northland's smaller locomotives, is now performing day-to-day maintenance and repair for the locomotive fleet and the PBX – with the same number of employees. It means fewer out of service days for locomotives, a substantial cost savings, and it has enabled the 150,000 square-foot rail, locomotive and paint shops in North Bay to take on outside work for clients.

In 2017-18 to 2019-20, our cost containment/reduction efforts will focus specifically on:

- increasing the number of loads per car per year
- increasing revenue
- reviewing train service plans to minimize the number of train starts per year (reducing fuel costs)
- undertaking preventative car maintenance
- reducing maintenance expenses using cost tracking software

3.4 Remanufacturing and Repair

Ontario Northland's Remanufacturing and Repair Centre (RRC) in North Bay is vital to the organization's operation. We have been repairing and overhauling our own passenger and freight cars and locomotives for over a century. We have a well-earned reputation for high quality work.

Since transformation began we have:

- identified and reduced critical cost drivers
- ratified a collective agreement with Unifor that ensures we offer our services at a competitive rate with full cost recovery
- enhanced the employee suggestion program which has boosted morale and reduced costs
- continued to implement lean manufacturing and process improvements
- moved all day-to-day locomotive maintenance from North Bay to Cochrane, performing more work with the same number of employees, and freeing up our main centre to take on major locomotive overhaul work for Ontario Northland, as well as outside work from clients
- identified and pursued a potential pipeline of sales opportunities
- Secured a contract from a luxury tourist rail provider to fully remanufacture passenger cars

FACT: Since implementing our new employee suggestion program, we have received an average of 10 suggestions a month, 80% of which have been implemented. Employee suggestions have helped us to reduce energy, labour and materials costs, extend equipment life and improve health and safety.

We conducted a work review and commercial assessment of our operations. As a result, we are/will be:

- establishing weekly, monthly and annual production goals for each commercial product
- holding daily production plan meetings
- implementing warehousing and material management improvements
- implementing changes to processes for storing parts
- leveraging flexibility gained in the new labour contract to align the workforce with customer demand
- implementing a training program for both unionized employees and management

FACT: In 2015-16, RRC awarded 146 new contracts worth \$4.2+ million.

Going forward, we will also focus on improving productivity in both our freight and locomotive repair shops. We are/will be:

- mapping critical business processes
- confirm tasks for each service with associated task times for accurate quoting and scheduling
- performing gap analyses
- implementing operational improvements to continue to reduce costs

MOVES FORWARD: A competitive RRC wins new business



With a modernized collective agreement and continued process improvements the company and the unionized employees working at the Remanufacturing and Repair Centre (RRC) are on the same page when it comes to the importance of meeting the mandate of transformation. The agreement included important changes that align with industry standards. Not only will the new agreement produce considerable savings and efficiencies necessary to enhance its competitiveness, RRC, which already had a reputation for top-quality work, set itself up to attract new business opportunities. In July 2016, RRC won a contract from to refurbish luxury passenger rail cars for a Canadian company. The four-year contract added 70 new positions to the remanufacturing and repair team. The division has also secured additional freight car, locomotive and wheel repair contracts by being competitive and quality driven.

3.5 Corporate Services

With experts in finance, human resources, information technology, marketing and communications, facilities, business analysis, project management and continuous improvement, Corporate Services provides essential support to the business units to help them achieve their goals by:

- identifying cost drivers
- containing and reducing costs
- implementing efficiencies
- identifying and reducing risks

As Ontario Northland continues to transform to a dynamic, sustainable organization, Corporate Services will play an ever more important role. We are/will be:

- leading the development and implementation of an organization-wide performance measurement strategy with a focus on containing and driving down costs while maintaining efficient operations
- implementing an attendance management program across the organization to reduce costs associated with long and short term disability and sick leave
- providing budget support and ensuring accountability in meeting Ontario Northland's financial targets
- establishing an inventory of real estate assets
- greening Ontario Northland through initiatives that include electronic pay stubs, electronic processing of accounts payable, a VoIP phone system and energy management
- transforming Human Resources through workforce planning, leadership development programs and improved employee support
- promoting Ontario Northland as a valued transportation leader

FACT: Corporate Services has reduced accounts payable time from 24 days to 12 days, enabling Ontario Northland to take advantage of vendor discounts for prompt payment.

MOVES FORWARD: Corporate Services serves up savings across the organization



Ontario Northland's Corporate Services division provides important administrative services to all three business groups, including IT, HR, finance, marketing and communications, project management and corporate facilities. Over the past two years, its 70 employees have been scrutinizing costs across the organization looking at ways to contain and reduce them, while improving service. Corporate has also been turning the microscope on its own practices, introducing a new finance system and employee self-service portal that substantially reduces paper use, and a new VoIP phone system. In all, these innovations have saved close to \$1.5 million over two years – and many of them will lead to new savings. One example? By reducing the time to pay suppliers, Ontario Northland will be able to take advantage of vendor discounts.

Corporate Services has also restructured itself, analyzing, reviewing and updating each individual position to confirm value.

Over the next three years, we will be looking at ways to cut administrative costs by:

- simplifying the general ledger
- undergoing an analysis of all internal shared services to capture costs attributed to each division (e.g. human resources, finance legal, public affairs)
- improving procurement policies and processes
- implementing formal records management to comply with the provincial Archives and Recordkeeping Act (2006), which will improve security and access control, and reduce records storage and retrieval costs
- reviewing our pension fund strategy

4.0 BUSINESS CONTEXT FY2017-18 to FY2019-20

Ontario Northland’s business context going forward will be shaped by:

- momentum from FY2016-17, which included our transformation launch
- the business environment scan, which highlights key challenges and opportunities moving forward
- continuation and completion of FY2016-17 capital projects
- recent transit and infrastructure announcements by the province

4.1 Business Environment Scan: Challenges and Opportunities

Ontario Northland operates in an environment that poses considerable long-term challenges, the result of economic, political, social, technological and environmental change.

These challenges – and related opportunities – impact our three-year strategic priorities and, in turn, influence annual business plan deliverables. Changing demand for freight services and passenger services, funding for infrastructure and equipment upgrades, additional government regulations, and the shifting demand for Northern Ontario’s resources are all factors that shape our operating environment.

Opportunities and challenges are identified by performing ongoing business environment scanning, including community consultation.

<p>Changing demand for freight service</p>	<p>Northern Ontario’s economy has been highly dependent on the mining and forestry industries. At present, both are in a slump, which has impacted on rail service revenues. In the past, Ontario Northland’s rail freight revenue has depended on a number of large, anchor customers in these sectors. Going forward, our strategy is to focus on a number of smaller customers in these and other sectors, including agriculture and petrochemical. We are also looking at railway car storage as a potential new income stream while we remain prepared for a resurgence in mining and forestry. Multimodal services that provide, among other things, “truck to rail” solutions at key locations across Ontario Northland’s rail network will increase the customer base by providing “off-rail” customers with cost effective rail shipping options.</p>
<p>Changing demand for passenger services</p>	<p>Motor coach service is an absolute necessity in Northern Ontario with students and seniors in particular reliant on our service. But, the North’s decreasing population – spread out over a large area – together with new transportations options, are presenting a real challenge when it comes to maintaining and expanding motor coach</p>

	ridership while cutting/containing costs. We are continually monitoring routes to ensure the appropriate service is being provided and taking appropriate action. We are also responding to consumer demands by introducing innovations (e.g. online reservations and ticketing and adapting them for mobile devices, upgrading buses and stations with advanced technology, including WiFi, etc.)
Funding	Ontario Northland is focused on containing costs in an effort to reduce the subsidy we receive from the province. However, we have a responsibility to provide efficient and safe transportation services, which means ensuring that our vehicles (buses, train cars), rail lines and other infrastructure (e.g. bridges, culverts) are in top-notch condition, and meet or exceed all government standards. To carry these responsibilities out in a fiscally responsible manner, we require long-term funding (capital and operating) that is aligned with government priorities and the true cost of delivering services across such a large geographic area with low population density.
Fleet/facility maintenance	Efficiencies can be achieved through keeping labour costs competitive – we have ratified collective agreements with Unifor, IBEW, USW and Teamsters Maintenance of Way and Teamsters Motor Coach that does just that – and upgrading equipment for both motor coach and rail services. New and/or upgraded engines are more fuel efficient, which helps to reduce costs.
Evolving legislative changes for safety and security in the transportation industry	Safety of passengers, communities and freight is paramount to Ontario Northland. As rail and bus safety legislation, technology and accessibility standards evolve, Ontario Northland is being driven to implement safety initiatives to meet or exceed industry standards. In recent years, there have been additional reporting requirements, directives and increased oversight that requires additional staff to focus on report-backs and compliance. This has an impact on time spent for service improvements.
Expansion of public transportation in North America and fleet renewal	Many public transit agencies throughout Canada operate equipment that is just now reaching the portion of its lifecycle where refurbishment is required. Many railways also require advanced remanufacturing and repair of their assets, and although this is often based on the location/geography of those assets, there are few organizations that offer these services.
Workforce demographics	A growing percentage of the workforce at Ontario Northland is nearing retirement eligibility. In order to continue to provide safe and secure services, effective succession planning is required.

	Also, the rail industry across North America is experiencing a shortage of skilled trades and Ontario Northland is not immune. We are taking a proactive approach by 1) marketing and advertising rail-related careers to a younger audience, possibly including school visits and promotions and 2) beginning discussions with colleges and universities about increasing the program offering for rail-related skilled trades such as railway car technicians, engineers and conductors, machinists and electricians.
New and emerging technology	New technology can help Ontario Northland continue to meet the expectations of our customers while enabling our divisions to reach their goals. Corporate IT will continue to evaluate, recommend and enable appropriate IT systems and technology across all operating divisions.

5.0 FINANCIAL PROFILE

Ontario Northland at a Glance

ONTC is a consolidated entity to the Province of Ontario. As such the fiscal impact of ONTC on the Province is equivalent to the operating subsidy, capital subsidy and cost of borrowing for two small loans with the Ontario Financing Authority. As per the Pension Deficit funding note, the forecasts included in this plan may be subject to significant change that is outside the immediate control of the agency.

The three year operating budget aligns with the provincial mandate to reduce overall operating subsidy requirements and shows an overall reduction in total operating subsidy from \$28.9M in FY2016-2017 to \$25.4M in FY2019-2020 (12.1%). FY2014-15 operating subsidy was \$38.4M, therefore the agency budgets an operating subsidy reduction of \$13M, or 34% since transformation began in FY2014-15.

Of the overall operating budget please note that the projected funding requirements for Polar Bear Express (PBX) Essential Services is \$17M (59% of the operating budget), \$16.2M, \$17.1M and \$17.7M for FY2016-17 to FY2019-20, respectively. The PBX passenger and freight train is an Essential Service connecting the communities of Cochrane and Moosonee and the only land link to the First Nations communities of the James Bay Coast.

Ontario Northland at a Glance	Projected 2016-2017	Projected 2017-2018	Projected 2018-2019	Projected 2019-2020
Operating Investment:				
Polar Bear Express (PBX) * Essential Services	17,045,546	16,199,675	17,147,042	17,668,451
Ontario Northland (excluding PBX)	11,873,696	10,615,717	8,499,326	7,755,528
Total Operating Investment	28,919,242	26,815,392	25,646,368	25,423,979
Capital Investment:				
Polar Bear Express (PBX) Essential Services	23,438,500	23,172,111	15,806,510	12,645,290
Ontario Northland (excluding PBX)	19,861,500	38,227,535	39,568,465	40,447,063
Total Capital Investment	43,300,000	61,399,646	55,374,975	53,092,353
Total Polar Bear Express (PBX) Essential Services Investment	40,484,046	39,371,786	32,953,552	30,313,741
Total Ontario Northland (excluding PBX) Investment	31,735,196	48,843,252	48,067,791	48,202,591
Funding for Telecommunications Site Closures	2,000,000	500,000		
Pension Deficit Payments	5,900,000	7,083,500	15,734,000	15,734,000
Principle payments of long term debt	385,975	406,347	427,794	389,407
	80,505,217	96,204,884	97,183,137	94,639,738

*Polar Bear Express Essential Services include all Rail Freight and Rail Passenger services from Cochrane to Moosonee

Note – The pension funding identified for FY2016-17 is based on the January 1, 2014 valuation of the pension plan and the solvency relief rules set out in O.Reg 178/11. The projected funding for FY2017-18 and onward is based on a projection of the funded status of the plan that was prepared for budget purposes and reflects an amendment to O. Reg 178/11 that was introduced in October 2016. Under the current regulations solvency deficit funding is to commence on January 1, 2018 based on the January 1, 2017 valuation of the plan. The amounts however are subject to the actual results of the January 1, 2017 valuation of the pension plan and the solvency funding requirements of the Pension Benefits Act or any other legislation which may affect pension plan funding. It should be noted that the province is currently undertaking a review of the solvency funding framework for defined benefit pension plans, therefore the forecasts included in this plan may be subject to significant change that is outside the immediate control of the agency.

5.1 Operating Budget Summary

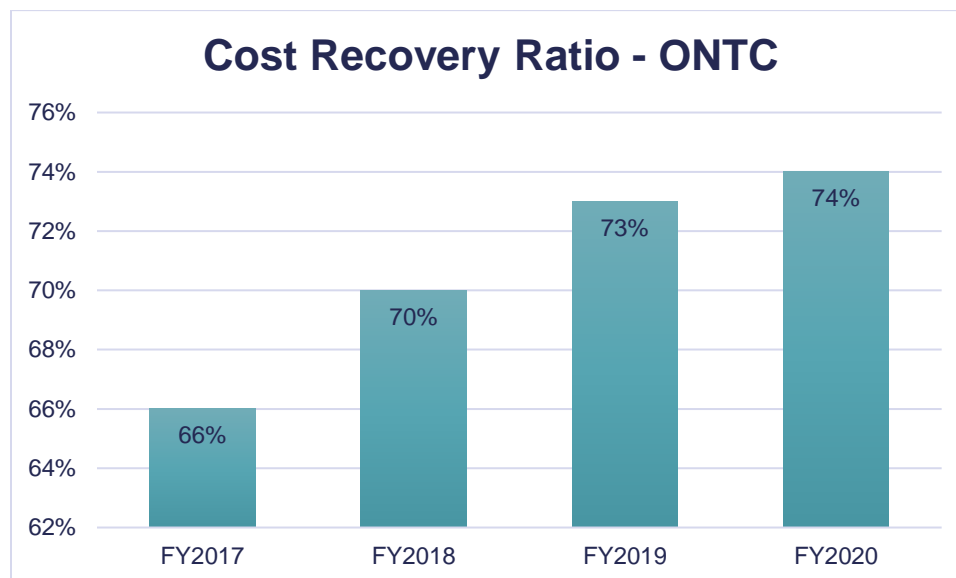
Operating Budget Summary

The development of the FY2017-18 to FY2019-20 operating budget is guided by Key Business Plan objectives. The budget is presented at a summary level for the agency. The cost allocation methodology will be updated as Ontario Northland develops a full costing model for allocating overhead costs to each operating divisions. The costing model will enable divisional reporting and provide full cost view of each operating division to support decision making with more relevant information.

Total expenses for Fiscal 2016-2017 are projected at \$87.7M, 2017-2018 at \$89.9M, 2018-2019 at \$93.4M and 2019-2020 at \$97M with shared costs being allocated to each division.

5.2 Cost Recovery Ratio

Ontario Northland budgets the following cost recovery ratio in this business plan:



As the base year for this business plan, the 2016-17 forecasted cost recovery ratio is 66% across the entire agency. This is budgeted to improve to 70% in 2017-18, 73% in 2018-19 and 74% in 2020.

This is a substantial improvement and is the result of:

- transformation initiatives
- optimized use of provincial assets
- sustained focus on cost drivers and cost restructuring efforts

5.3 Capital Budget

ONTC Ten Year Capital Plan: 2017-2018 to 2026-2027

Overview of ten-year capital plan:

During the first 6 months of FY2016-17, Ontario Northland reviewed our major asset categories:

- Major assets held by ONTC:
 - Motor Coaches: 24 owned
 - Rolling Stock:
 - 24 locomotives
 - 16 PBX passenger cars currently being refurbished

- ~ 300 freight box cars and 154 service cars (gons, paper, center beam)
- Track: 673 miles of track across 7 subdivisions
- Bridges and culverts: 93 bridges and 2191 culverts
- Major buildings: 100+ buildings with 29 significant buildings

As part of our transformation program, Ontario Northland’s goal was to complete significant analysis on all major infrastructure components in order to confirm a ten year capital plan for the agency, including ensuring that an appropriate “state of good repair” was achieved and infrastructure debt was reduced. This 10 year capital plan has been submitted for approval.

5.4 Risk Assessment

Ontario Northland will grow its enterprise risk management practice and, including risk training for appropriate staff, while implementing its OPS risk framework-aligned strategy. There will also be an increased focus on capital project risk through the use of project managers and standardized project planing.

Risk identification, assessment and mitigation strategies:

Key Area	Risk Description / Mitigation
Motor coach will provide safe, efficient, reliable and responsible intercity bus services that connect northern communities and align with passenger volumes.	Access to sufficient capital to maintain an appropriate average age of the fleet, while adjusting service levels to meet passenger levels and maintaining customer and community satisfaction with the level of service.
Rail Services will safely, efficiently and reliably provide rail services that support economic prosperity in Ontario.	Global demand for mining, forestry, and agriculture will impact revenues. Infrastructure maintenance will need to be carefully planned out to ensure stable funding. Enhancing sales capacity to focus on many smaller opportunities is a new focus for Rail group.
RRC will deliver services for Ontario Northland and customers throughout North America.	Ability to attract customers could be impacted by geography. Need to transform the mindset from maintenance shop to production line. Market research will confirm revenue targets. Process improvement and lean manufacturing implementation will confirm organizational capacity to deliver to market needs.
Provide innovative, efficient and effective corporate services to support the business units.	Implementation of appropriate people, process, technology, partners and training is required to successfully enable the divisions to achieve their goals. This requires effective recruiting, succession planning, funding and leadership in order to align and continuously improve.
Organization structure and staffing required for successful transformation.	<p>The ability to retain, attract and succession plan remain significant challenges in transformation.</p> <p>Due to the large percentage of retirement-eligible employees in the next 3-5 years, staffing the organization with the appropriate skilled workforce for transformation is essential.</p>

Financial goals	Balancing financial goals of the province, stakeholder expectations for transformation (which are not entirely financial), and customer requirements/demands requires a significant amount of planning, communication, evaluation and reporting. The timeframe to successfully complete all objectives requires regular and ongoing evaluation and scheduling.
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6.0 HUMAN RESOURCES

Moving to a culture of continuous improvement and constructively challenging the status quo will be key to Ontario Northland’s transformation.

We are:

- focusing on employee engagement and empowerment
- implementing a set of Key Performance Indicators (KPIs) at all levels – organization wide, program, project and individual – to confirm ongoing performance, guide future improvement and measure transformation success

We are also:

- identifying key positions in the organization, including skilled trades, and developing a succession plan, including a strong apprenticeship program
- looking at ways to attract and retain employees, particularly in management roles (e.g. updating our pay structure and achieving compensation based on performance)
- launching a leadership training program to provide a common management “voice” across the organization
- working with local educational institutions to develop industry-focused training programs and/or support trade requirements
- identifying opportunities for savings, e.g. reducing the cost of disability payments through a renewed focus on early and safe return to work
- developing the capacity to liaise with government and respond to growing reporting requirements for a public agency

7.0 PERFORMANCE MEASURES

PBX customer satisfaction:				
2015-16: Satisfaction with PBX overall: 77%				
PBX on-time performance:				
2015-16: 99%				
2014-15: 99%				
2013-14: 98%				
Station Inn occupancy rate:				
2015-16: 60%				
2014-15: 60%				
2013-14: 46%				
Cost Recovery Ratio:				
Cost Recovery Ratio*	2016-17	2017-18	2018-19	2019-2020
Ontario Northland (including PBX)	66%	70%	73%	74%
Ontario Northland (excluding PBX)	79%	85%	88%	89%
*projected 2016-17 and budgeted 2017-18 through 2019-2020				
Rail Freight Services:				
Goals/Outcomes	Measures	Targets/Standards	Comments	
Increase Volume	Ongoing measurement of volume	To be established.	Provides an indication of rail freight activity and demand.	
Rail freight carloads:				
2013-14: 29043				
2014-15: 28455				
2015-16: 27511				
Corporate Services:				
Goals/Outcomes	Measures	Targets/Standards	Comments	
Increased Workplace Safety	Ongoing measurement of lost days.	To be established.	Provides an indication of workplace safety.	

Lost time injury frequency rate (LTIR) refers to the number of injuries per every 200,000 employee hours worked. The following chart shows the LTIR at a current rate of 3.65 injuries for every 200,000 hours worked, which is consistent with 2015 levels. Efforts by management and the Health and Safety Office are targeting workplace injuries and as part of performance measurement strategy will be setting targets, together with union and management, for LTIR during 2017.

2016: 3.65
2015: 3.65
2014: 1.92
2013: 4.09

For context, the Federal Railway Association compiles and maintains an average LTIR for US Regional Railways reporting an average LTIR of 3.24.

8.0 INFORMATION TECHNOLOGY SERVICES

Information Technology Services (ITS) provides centralized enterprise technology services for all divisions. ITS is critical to Ontario Northland's successful transformation. By providing timely and consistent decision-making information ITS will help the operating divisions:

- improve their processes
- automate their operations
- gain important efficiencies

In 2017-19, ITS will introduce a number of software programs aimed at containing/lowering labour costs, including:

- HR Self Service (manages Human Resources information)
- Workforce Management Time Scan (improves productivity and labour cost accuracy)
- Open Text (provides secure records management)
- Crew Management (automates key activities involved in crewing trains)
- Performance Management (aligns individual employee objectives and development with corporate strategy)

9.0 MARKETING AND COMMUNICATIONS

The Marketing and Communications department provides marketing, communications and creative support to all the business divisions.

Our job is to support business growth across the organization by promoting Ontario Northland as a dynamic, successful transportation provider: a valued transportation leader.

The Marketing and Communications team is responsible for:

- advertising and promotion
- public relations
- internal communications

The team also manages communications issues as they arise and works with the Ministry of Northern Development and Mines and other stakeholders to ensure accurate and consistent messaging.

10.0 Response to Expectations Set Out in Agency Mandate Letter

Ontario Northland will have a mandate review in FY2016/17 and therefore the ministry did not provide Ontario Northland with a mandate letter.