

Quarterly Financial Report of

**TRANSPORT CANADA**

(Unaudited)

For the quarter ended December 31<sup>st</sup>, 2020

# TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended December 31, 2020

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## Statement outlining results, risks and significant changes in operations, personnel and programs

### 1. Introduction

This quarterly financial report has been prepared by management as required by [section 65.1 of the \*Financial Administration Act\*](#) and in the form and manner prescribed by the [Directive on Accounting Standards, GC 4400 Departmental Quarterly Financial Report](#).

The quarterly report should be read in conjunction with the Main Estimates and Supplementary Estimates (A) and (B).

This quarterly report has not been subject to an external audit or review.

### 1.1 Authority, Mandate and Program Activities

A summary description of Transport Canada's program activities is presented in [Part II of the Main Estimates](#).

### 1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes Transport Canada's spending authorities granted by Parliament, and those used by Transport Canada consistent with the Main Estimates for the 2020-21 fiscal year. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before money can be spent by the government. Approvals are given in the form of annually approved limits through appropriation acts, or through legislation in the form of statutory spending authority for specific purposes.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

Transport Canada uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental results reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

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## 2. Highlights of fiscal quarter and fiscal year-to-date (YTD) results

### 2.1 Statement of Authorities

Transport Canada's total authorities available for use increased by approximately \$400.9 million, from \$2,139.4 million as of December 31, 2019 to \$2,540.3 million as of December 31, 2020, as summarized below:

**Table 1: Significant Changes in Authorities (in thousands of dollars):**

Authorities <sup>(3)</sup>	2020-2021 <sup>(1 &amp; 2)</sup>	2019-2020 <sup>(1 &amp; 2)</sup>	Variance
Vote 1 – Net operating expenditures	797,801	760,259	37,542
Vote 5 – Capital expenditures	353,081	166,013	187,068
Vote 10 – Grants and contributions – Efficient Transportation System	855,295	612,064	243,231
Vote 15 – Grants and contributions – Green and Innovative Transportation System	237,592	332,848	(95,256)
Vote 20 – Grants and contributions – Safe and Secure Transportation System	64,395	48,990	15,405
Budgetary statutory authorities <sup>(3)</sup>	232,170	219,219	12,951
<b>Total Authorities</b>	<b>2,540,334</b>	<b>2,139,393</b>	<b>400,941</b>

#### Notes:

- (1) Totals may not add or may not agree with details provided elsewhere due to rounding.
- (2) Excludes funding from the authorities in the Budget Implementation Votes.
- (3) See Statement of Authorities for more details.

The accompanying Statement of Authorities illustrates the total authorities available for use, the authorities used for the quarter, the year-to-date authorities used for the current fiscal year, as well as the comparative figures for the previous year. The major year-to-year changes for the quarters ended December 31, 2020 are explained below.

#### 2.1.1 Vote 1 – Net Operating Expenditures (Increase of \$37.5 million)

Planned operating authorities increased by \$37.5 million from 2019-2020 to 2020-2021, mostly explained by the following factors:

- An increase in authorities of:
  - \$12.3 million for the Operating Budget Carry Forward;
  - \$10.0 million for the Oceans Protection Plan;
  - \$7.9 million related to the 2020-2021 signed collective agreements; and
  - \$6.7 million from the Proceeds of Sale from Disposition of Real Property.

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## 2.1.2 Vote 5 – Capital Expenditures (Increase of \$187.1 million)

Planned Capital authorities increased by \$187.1 million from 2019-2020 to 2020-2021, largely explained by the following factors:

- An increase in funding of:
  - \$180.0 million for the purchase of the MV Villa de Teror ferry; and
  - \$8.7 million for the Oceans Protection Plan.

## 2.1.3 Vote 10 – Grants and Contributions – Efficient Transportation System (Increase of \$243.2 million)

Grant and contribution authorities for Vote 10 increased by \$243.2 million from 2019-2020 to 2020-2021, largely explained by the following factors:

- An increase in funding of:
  - \$190.9 million for the National Trade Corridors Fund;
  - \$115.4 million for the Support of Essential Air Access to Remote Communities;
  - \$61.8 million in contributions for the Port Asset Transfer Program;
  - \$7.5 million for the Outaouais Roads Development Agreement;
  - \$7.4 million for the Ferry Services Contribution Agreement;
  - \$4.3 million for the Gateways and Border Crossing Fund;
  - \$2.9 million for the Asia-Pacific Gateway and Corridor Transportation Infrastructure Fund; and
  - \$2.5 million for the Airports Capital Assistance Program.
- Offset by a decrease in funding of:
  - \$149.8 million in grants for the Port Asset Transfer Program.

## 2.1.4 Vote 15 – Grants and Contributions – Green and Innovative Transportation System (Decrease of \$95.3 million)

Grant and contribution authorities for Vote 15 decreased by \$95.3 million from 2019-2020 to 2020-2021, largely explained by the following factors:

- An increase in funding of:
  - \$6.6 million to Protect Canada's Coastlines and Waterways;
  - \$1.4 million in contributions for the Program to Address Disturbances from Vessel Traffic; and
  - \$0.6 million for the Marine Safety Equipment and Training Initiative.
- Offset by a decrease in funding of:
  - \$74.1 million for the Incentives for Zero-Emission Vehicles Program; and
  - \$30.0 million in contributions for the Trans Mountain Expansion Project.

## 2.1.5 Vote 20 – Grants and Contributions – Safe and Secure Transportation System (Increase of \$15.4 million)

Grant and contribution authorities for Vote 20 increased by \$15.4 million from 2019-2020 to 2020-2021, largely explained by the following factors:

- An increase in funding of:
  - \$11.2 million for the Road Safety Transfer Payment Program; and
  - \$3.2 million for the Rail Safety Improvement Program.

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## 2.1.6 Budgetary Statutory Authorities (Increase of \$12.9 million)

The planned expenditures for the budgetary statutory authorities increased by \$12.9 million mainly as a result of an increase in funding of \$1.4 million for the Northumberland Strait Crossing Subsidy Program and an increase in capital and operating requirements associated with the St. Lawrence Seaway Management Corporation (SLSMC) in the amount of \$15.2 million. The SLSMC is responsible for managing and operating the Seaway, as well as the maintenance, repairs, acquisition and replacement of government-owned Navigation Seaway Assets. Transport Canada is responsible for funding any SLSMC financial requirements net of revenues. The increase in planned spending was offset by a decrease of \$3.7 million in planned contributions to Employee Benefits Plans.

## 2.2 Statement of Departmental Budgetary Expenditures by Standard Object

The accompanying Statement of Departmental Budgetary Expenditures by Standard Object illustrates annual planned expenditures, quarter and year-to-date expenditures for the current fiscal year, and comparative figures for the previous fiscal year. Overall, the year-to-date expenditures at the end of the third quarter of 2020-2021 represent 42% of the annual planned expenditures, which is consistent with the third quarter of 2019-2020.

Historically, most spending on high-dollar value, major infrastructure grant and contribution programs occurs in the fourth quarter. This is due to the fact that the majority of recipients submit their claims for reimbursement in the last quarter following the summer and fall construction periods. For some categories of operating expenditures, the year-to-date actuals represent a small fraction of the planned expenditures, which is consistent with prior years and other federal government departments. This is mainly a result of a timing difference between the date the goods or services were obtained and the invoices received. In addition, there is also a ramp up of operational activities in the last quarter following mid-year internal budget reallocations, and receipt of increased funding for new initiatives, for which the majority of expenditures will be incurred in the fourth quarter.

The major year-to-year variances as at December 31, 2020 are as follows:

### Planned Expenditures

#### ○ **Personnel**

The planned expenditures related to **Personnel** for the year 2020-2021 compared to 2019-2020 increased by approximately \$27.0 million primarily due to an increase in the personnel component of the Operating Budget Carry Forward, an increase in funding for collective agreements, incentives for Zero-Emission Vehicles Program and the National Trade Corridors Fund.

#### ○ **Professional and Special Services**

The planned expenditures related to **Professional and Special Services** for the year 2020-2021 compared to 2019-2020 increased by approximately \$25.2 million due to an increase in authorities for Delivering Better Service for Air Travelers, to support environmental remediation projects and the Port Asset Transfer Program, offset by a decrease of funding for the Program to Address Disturbances from Vessel Traffic.

#### ○ **Acquisition of land, building and works**

The planned expenditures related to **Acquisition of land, building and works** for the year 2020-2021 compared to 2019-2020 increased by \$27.4 million due to an increase in funding for the Eastern Canada Ferries Fleet Procurement, the Oceans Protection Plan (the construction of a hangar) and various other projects.

#### ○ **Acquisition of machinery and equipment**

The planned expenditures related to **Acquisition of machinery and equipment** for the year 2020-2021 compared to 2019-2020 increased by \$179.1 million mainly due to an increase in authorities for the Purchase of MV Villa de Teror, as described in section 2.1.2.

#### ○ **Transfer payments**

The planned expenditures related to **Transfer payments** for the year 2020-2021 compared to 2019-2020 increased by approximately \$164.8 million. The causes of the variances are explained in sections 2.1.3 to 2.1.5.

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- **Vote-netted revenues**

The planned expenditures related to *Vote-netted revenues* for the year 2020-2021 compared to 2019-2020 increased by approximately \$13.9 million mainly due to an increase in the volume of transactions and in a new charging methodology, for internal government of Canada cost recoveries for aircraft maintenance services that Transport Canada provides to other government departments.

### Year-to-Date Expenditures

- **Personnel**

The year-to-date expenditures related to *Personnel* at December 31, 2020 increased by approximately \$30.8 million when compared to 2019-2020. The increase is mainly attributable to annual salary increases implemented pursuant to collective agreements renewal, as well as to increases in staffing levels, particularly in the Safety & Security and Digital Services and Transformation Office groups.

- **Transportation and communications**

The year-to-date expenditures related to *Transportation and communications* at December 31, 2020 decreased by approximately \$16.8 million when compared to 2019-2020. This decrease is largely explained by a reduction in travel related to meetings, workshops, conferences as well as for operations due to the travel restrictions following the COVID-19 pandemic.

- **Acquisition of land, buildings and works**

The year-to-date expenditures related to *Acquisition of land, buildings and works* at December 31, 2020 decreased by approximately \$9.6 million when compared to 2019-2020. This decrease is mainly due to the larger investments in 2019-2020 for projects such as the paving of an airstrip at the Kuujuaq airport.

- **Acquisition of machinery and equipment**

The year-to-date expenditures related to *Acquisition of machinery and equipment* at December 31, 2020 increased by approximately \$18.7 million when compared to 2019-2020. Most of the increase is related to a 10% deposit payment made for the acquisition of MV Villa de Teror. The remaining balance will be paid in last quarter of the fiscal year once Transport Canada takes ownership of the Ferry.

- **Transfer payments**

The year-to-date expenditures related to *Transfer payments* at December 31, 2020 increased by approximately \$33.0 million when compared to 2019-2020. Major increases in this area include \$41.4 million for the new Air Services for Remote Communities program, \$29.7 million for the National Trade Corridors Fund, and \$7.3 million for the Asia Pacific Gateway and Corridor Fund, offset by a reduction of \$41.2 million in payments under the Incentives for Zero-emissions Vehicles Program.

- **Vote-netted revenues**

The year-to-date revenues related to the *Vote-netted revenues* at December 31, 2020 decreased by approximately \$8.8 million when compared to 2019-2020. This decrease is largely explained by a reduction in the Canadian Aviation Regulations and Marine Safety Regulation sectors due to the restrictions following the COVID-19 pandemic.

### 3. Risks and Uncertainties

The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods and physical distancing requirements, have caused material disruption to businesses globally resulting in an economic slowdown. The duration and impact of the COVID-19 outbreak is unknown at this time.

Transport Canada is closely monitoring the COVID-19 situation and has issued transportation-related measures and guidance. The economic impact to the transportation sector and the public at large will, in turn, impact departmental revenues and expenditures. The department remains committed to its top priority: the safety and security of Canadians and Canada's transportation system, as well as ensuring the continued flow of essential goods and services that Canadians need to remain healthy. Transport Canada is working with

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the Public Health Agency of Canada, provincial and territorial governments, transportation industry stakeholders, and Indigenous Peoples to reduce the risk of transmission.

Transport Canada maintains a Corporate Risk Profile which identifies and assesses high-level risks that could affect the achievement of departmental objectives and priorities. The identification of risks and the development of risk responses contribute to making decisions related to setting departmental priorities, planning, allocating resources, developing policies, managing programs and reporting on performance. Additional information regarding Transport Canada's key risk areas is presented in the [2020-2021 Departmental Plan](#).

Certain risks would have financial impacts should they materialize; for example many factors affecting the timing of transfer payments lie outside of Transport Canada's control and could require funds to be re-profiled to future years. To minimize these impacts, Transport Canada continuously monitors its program funding and expenditures, including a monthly senior management review of plans and forecasts.

Transport Canada implemented the Phoenix pay system on April 7, 2016 as part of the Government of Canada pay transformation initiative. Since its implementation, the new pay system has experienced issues, which Public Services and Procurement Canada is working to resolve as quickly as possible. To mitigate the impact on its employees, Transport Canada has issued emergency salary advances to employees not receiving their basic pay. The pay issues and the workload associated with the signing of new collective agreements have also resulted in a backlog of compensation transactions, most notably acting pay transactions. However, the number and the value of outstanding acting pay has been diminishing since 2018-2019. The pay system issues have also generated salary overpayments. Transport Canada works with the employees in question to recover the funds through a repayment plan to ensure that they do not experience any undue hardships. The impact of the pay system issues on the year-to-date expenditures reflected in the Quarterly Financial Report is not material. Transport Canada will deal with these matters on an expedited basis when the required updates to the Phoenix pay system are implemented.

Transport Canada is currently implementing major initiatives that have risks associated with inter-departmental coordination, cooperation and performance, as well as with the outcome of consultations with key transportation stakeholders and indigenous groups. Transport Canada's Transformation Plan is also designed to improve the Department's financial sustainability and regulatory environment for the future. There are risks and uncertainties associated with implementing needed legislative changes, introducing new cost recovery initiatives and realizing planned savings from identified efficiency opportunities.

The loss of key personnel represents a risk for most organizations. Transport Canada mitigates this risk through its succession planning strategy, as well as promptly launching staffing processes and having experienced personnel acting in positions that are vacant.

## 4. Significant Changes in Relation to Operations, Personnel and Programs

In response to COVID-19, over the weekend of March 14-15, 2020, Transport Canada transitioned to remote work to sustain critical services to Canadians. Since the first quarter of fiscal year 2020-2021 over 90% of Transport Canada employees were able to work remotely without invoking business continuity plans. This was possible as a result of digital capacity building within the department over the past two years and a focus on innovation through service design and digital tools to deliver improved and more cost-effective services in support of Canada's transportation system. Looking forward, Transport Canada is focusing on continuing to increase digital capacity, sustaining remote work, developing organizational capacity to effectively manage remote teams, and enabling a safe and gradual transition back to the worksite.

On January 12, 2021, the Prime Minister appointed the Honorable Omar Alghabra as the new Minister of Transport.

There have been no other significant changes in relation to operations, personnel and programs over the last quarter, except as described in section 2.1.



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Approved by:

Original signed by

Michael Keenan,  
Deputy Minister  
Ottawa, Canada

February 25, 2021

Ryan Pilgrim, CPA, CA  
Chief Financial Officer  
Ottawa, Canada

February 16, 2021

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## Statement of Authorities (unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2020-2021			Fiscal year 2019-2020		
	Total available for use for the year ending March 31, 2021 <sup>(1)</sup>	Used during the quarter ended December 31, 2020	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2020 <sup>(1)</sup>	Used during the quarter ended December 31, 2019	Year-to-date used at quarter-end
Vote 1 – Operating expenditures	888,314	205,549	560,251	836,909	192,075	550,634
Vote 1 – Revenue credited to the vote	(90,513)	(21,981)	(46,392)	(76,650)	(19,486)	(55,276)
<b>Vote 1 – Net operating expenditures</b>	<b>797,801</b>	<b>183,568</b>	<b>513,859</b>	<b>760,259</b>	<b>172,589</b>	<b>495,358</b>
Vote 5 – Capital expenditures	353,081	24,473	71,379	166,013	38,306	76,232
Vote 10 – Grants and contributions – Efficient Transportation System	855,295	101,718	186,400	612,064	65,373	117,956
Vote 15 – Grants and contributions – Green and Innovative Transportation System	237,592	39,918	90,811	332,848	81,826	128,891
Vote 20 – Grants and contributions – Safe and Secure Transportation System	64,395	1,308	1,708	48,990	1,031	1,953
<b>Budgetary statutory authorities</b>						
Contributions to employee benefit plans	84,990	21,093	63,280	88,687	19,885	59,654
Minister of Transport – Salary and motor car allowance	89	22	67	88	22	66
Railway Company – Victoria Bridge, Montreal	3,300	2,187	3,217	3,300	1,896	1,896
Northumberland Strait Crossing Subsidy Payment	68,699	-	68,603	67,273	-	66,999
Payments in respect of St. Lawrence Seaway Agreements	75,092	45,688	71,288	59,871	45,845	57,244
Refunds of amounts credited to revenues in previous years	-	-	-	-	-	1
Court Awards – <i>Crown Liability and Proceedings Act</i>	-	-	4	-	-	-
<b>Total Budgetary statutory authorities</b>	<b>232,170</b>	<b>68,990</b>	<b>206,459</b>	<b>219,219</b>	<b>67,648</b>	<b>185,860</b>
<b>Total budgetary authorities</b>	<b>2,540,334</b>	<b>419,975</b>	<b>1,070,616</b>	<b>2,139,393</b>	<b>426,773</b>	<b>1,006,250</b>

### Note:

(1) Includes only Authorities available for use and granted by Parliament at quarter-end.

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## Departmental Budgetary Expenditures by Standard Object (unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2020-2021			Fiscal year 2019-2020		
	Planned expenditures for the year ending March 31, 2021	Expended during the quarter ended December 31, 2020	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2020	Expended during the quarter ended December 31, 2019	Year-to-date used at quarter-end
<b>Expenditures:</b>						
Personnel	685,729	171,189	501,229	658,739	164,959	470,411
Transportation and communications	34,200	1,912	4,774	38,766	8,547	21,617
Information	5,982	1,186	2,669	6,642	716	1,818
Professional and special services	213,552	46,191	100,830	188,315	39,198	98,104
Rentals	12,113	2,268	7,910	12,938	1,625	7,483
Repair and maintenance	13,808	3,675	7,217	13,552	2,693	7,244
Utilities, materials and supplies	17,797	4,369	9,822	18,348	3,799	12,386
Acquisition of land, buildings and works	164,103	43,506	77,524	136,661	58,240	87,149
Acquisition of machinery and equipment	239,156	17,963	43,757	60,043	14,441	25,069
Transfer payments	1,229,281	145,130	350,739	1,064,475	150,126	317,695
Other subsidies and payments	15,126	4,567	10,537	17,564	1,915	12,550
<b>Total gross budgetary expenditures</b>	<b>2,630,847</b>	<b>441,956</b>	<b>1,117,008</b>	<b>2,216,043</b>	<b>446,259</b>	<b>1,061,526</b>
<b>Less Revenues netted against expenditures:</b>						
Vote-netted revenues	(90,513)	(21,981)	(46,392)	(76,650)	(19,486)	(55,276)
<b>Total Revenues netted against expenditures:</b>	<b>(90,513)</b>	<b>(21,981)</b>	<b>(46,392)</b>	<b>(76,650)</b>	<b>(19,486)</b>	<b>(55,276)</b>
<b>Total net budgetary expenditures</b>	<b>2,540,334</b>	<b>419,975</b>	<b>1,070,616</b>	<b>2,139,393</b>	<b>426,773</b>	<b>1,006,250</b>