Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended December 31st, 2016

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Statement outlining results, risks and significant changes in operations, personnel and program

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 Treasury Board Accounting Standard 1.3. 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 the Department consistent with the Main Estimates and Supplementary Estimates (A) and (B) for the 2016-2017 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 moneys 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 performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

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 decreased by approximately $304 million, from $1,771 million as of December 31, 2015 to $1,467 million as of December 31, 2016, as summarized below:

Table 1: Significant changes in Authorities (in thousands of dollars):

Authorities	2016-2017 (1)	2015-2016 (1)	Variance
Vote 1 – Operating expenditures	605,978	642,866	(36,888)
Vote 5 – Capital expenditures	151,672	187,157	(35,485)
Vote 10 – Grants and contributions (2)	-	667,887	(667,887)
Vote 10 - Grants and contributions – Gateways and corridors (2)	257,904	-	257,904
Vote 15 - Grants and contributions – Transportation infrastructure (2)	128,659	-	128,659
Vote 20 - Grants and contributions – Other (2)	50,414	-	50,414
Budgetary statutory authorities	272,641	273,663	(1,022)
Total Authorities	**1,467,268**	**1,771,573**	**(304,305)**

Notes:

(1) Totals may not add or may not agree with details provided elsewhere due to rounding.

(2) Starting in 2016-2017, the Department of Transport is the subject of a pilot project through which its grants and contributions will appear in separate votes based on a program structure. Therefore, Transport's grants and contributions are divided into three separate votes in 2016–2017 based on the departmental Program Alignment Architecture.

The Statement of Authorities attached at the end illustrates the total authorities available for use, the authorities used for the quarter and 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 quarter ended December 31, 2016 are explained below.

2.1.1 Vote 1 – Operating expenditures (Decrease of $37M)

Planned operating authorities decreased by $37 million from 2015-2016 to 2016-2017 mostly explained by the following factors:

- Decrease in planned spending of:
  - $75 million for an out of court settlement related to Lac Megantic;
  - $10 million for the Port Asset Transfer Program for which the current funding sunsets in 2016-2017; and
  - $9 million resulting from the transfer of the Gordie Howe International Bridge (previously called the Detroit River International Crossing) project to Infrastructure Canada.

- Offset by an increase in planned spending of:
  - $27 million to enhance the safety of railways and the transportation of dangerous goods;
  - $12 million from the 2016 Federal Infrastructure Initiative to accelerate the remediation of Federal Contaminated Sites;

- $5 million for the Ferry Services Contribution Program to support the continued operations of three ferry services in Eastern Canada;
- $5 million for the increase in Operating Budget Carry Forward from 2015-2016 to 2016-2017;
- $3 million for the renewal of the Tanker Safety Inspection Program; and
- $3 million to modernize and strengthen motor vehicle safety for Canadians.

2.1.2 Vote 5 – Capital expenditures (decrease of $35M)

Capital expenditures authorities decreased by $35 million from 2015-2016 to 2016-2017, largely explained by the following factors:

- Decrease in planned spending of:
  - $40 million resulting from the transfer of the Gordie Howe International Bridge (previously called the Detroit River International Crossing) project to Infrastructure Canada; and
  - $12 million in capital funding due to the year-over-year reduction to Capital Budget Carry Forward ($7 million in core funding and $5 million for the Ferry Services Contribution Program).

- Offset by an increase in planned spending of:
  - $15 million for Federal Infrastructure Initiatives, mainly allocated to investments for the Wabush and Îles-de-la-Madeleine airports.

2.1.3 Votes 10, 15 and 20 – Grants and contributions (decrease of $231M)

Grants and contributions authorities decreased by $231 million from 2015-2016 to 2016-2017, largely explained by the following factors:

- Decrease in planned spending of:
  - $247 million for the Asia Pacific Gateways and Corridors Transportation Infrastructure Fund, as the program approaches its maturity date.

- Offset by an increase in planned spending of:
  - $6 million for Contribution to Support Clean Transportation Initiatives to address climate change and air pollution;
  - $7 million for the Port Asset Transfer Program Contribution mainly related to the Cornwall Port Facility to the City of Cornwall and the Mohawk Council of Akwesasne; and
  - $3 million for the Gateway and Borders Crossings Fund.

2.1.4 Budgetary statutory authorities (decrease of $1M)

The budgetary statutory authorities decreased by $1 million mainly as a result of a decrease of $8 million in capital and operating requirements associated with the St. Lawrence Seaway offset by an increase of $5 million in Employee Benefit Program (EBP) and an increase of $2 million in funding for the Northumberland Strait Crossing Subsidy Payment.

2.2 Statement of Departmental Budgetary Expenditures by Standard Object

The statement of Departmental Budgetary Expenditures by Standard Object attached at the end illustrates the annual planned expenditures, the expenditures for the quarter and the year-to-date expenditures for the current fiscal year as well as the comparative figures for the previous year. Overall, the year-to-date expenditures at the end of the third quarter of 2016-2017 represent 49% of the annual planned expenditures, compared to 51% in 2015-2016.

Historically, most spending on high-dollar value, major infrastructure grants 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 period.

The major year-to-year variances as at December 31, 2016 are as follows:

- **Personnel**

  The planned expenditures related to ***Personnel*** for 2016-2017 increased by approximately $23 million compared to the 2015-2016 planned expenditures, as a result of new funding of $16 million from the 2016 federal budget to enhance the safety of railways and the transportation of dangerous goods, $4 million increase in the Employee Benefit Plan and $1 million in new funding to modernize and strengthen Motor Vehicle Safety for Canadians.

  The year-to-date expenditures related to ***Personnel*** at December 31, 2016 decreased by approximately $44 million when compared to the 2015-2016 third quarter year-to-date expenditures, largely as a result of prudent staffing measures taken by the department during the year and a higher than expected attrition rate. In addition, there was a timing difference attributed to the Employee Benefit Plan payments incurred in the last quarter of this fiscal year when compared to previous year.

  As part of its planned expenditures, the department has set aside sufficient funding for the retroactive payments for collective agreements. As of December 31, 2016, no payments have been made in regards to those agreements.

- **Transportation and communications**

  The planned expenditures related to ***Transportation and communications*** for 2016-2017 decreased by approximately $4 million compared to the 2015-2016 planned expenditures, as a result of planned expenditure restraint measures, including the use of alternatives to travel, such as teleconference and videoconference.

  The year-to-date expenditures related to ***Transportation and communications*** at December 31, 2016 decreased by approximately $8 million when compared to the 2015-2016 third quarter year-to-date expenditures as a result of the restraint measures described above.

- **Professional and special services**

  The planned expenditures related to ***Professional and special services*** for 2016-2017 increased by approximately $33 million compared to the 2015-2016 planned expenditures. The increase is largely attributed to an increase in funding related to the assessment, management and remediation of federal contaminated sites and funding to address climate change and pollution as well as an increase in funding for the safety of railways and the transportation of dangerous goods and new funding for the Port Asset Transfer Program.

  The year-to-date expenditures related to ***Professional and special services*** at December 31, 2016 decreased by approximately $18 million when compared to the 2015-2016 third quarter year-to-date expenditures. The decrease is largely attributed to a decrease in year-to-date expenditures for services related to the Port of Gaspé (Sandy Beach) and Victoria Harbor Rock Bay remediation projects, as well as a reduction of expenses related to management consulting services, offset by an increase in legal services expenses.

  As of December 2016, only a small portion of the new funding described in the planned expenditures was incurred. Most of the expenditures will be incurred in the fourth quarter.

- **Repair and maintenance**

  The planned expenditures related to ***Repair and maintenance*** for 2016-2017 decreased by approximately $7 million compared to the 2015-2016 planned expenditures, as a result of a reduction in requirements for repairs and maintenance.

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

  The planned expenditures related to ***Acquisitions of land, buildings and works*** for 2016-2017 decreased by approximately $24 million compared to the 2015-2016 planned expenditures. The decrease is mainly due to the transfer of the Gordie Howe International Bridge (previously called the Detroit River International Crossing) project to Infrastructure Canada offset by an increase in the Ferry Services Contribution Program and Federal Infrastructure Initiative projects.

- **Acquisitions of machinery and equipment**

  The planned expenditures related to ***Acquisitions of machinery and equipment*** for 2016-2017 decreased by approximately $9 million compared to the 2015-2016 planned expenditures. The decrease is mainly due to a reduction in the Capital Budget Carry Forward from 2015-2016 to 2016-2017.

  The year-to-date expenditures related to ***Acquisitions of machinery and equipment*** at December 31, 2016 decreased by approximately $12 million when compared to the 2015-2016 third quarter year-to-date expenditures. The decrease is largely attributed to the completion of the MV Princess of Acadia Vessel Replacement Project in 2015-2016 and reduced costs associated with Aircrafts parts and accessories.

- **Transfer payments**

  The planned expenditures related to ***Transfer payments*** for 2016-2017 decreased by approximately $229 million when compared to the planned expenditures for 2015-2016. The causes of the variances are explained in section 2.1.3.

  The year-to-date expenditures related to ***Transfer payments*** at December 31, 2016 decreased by approximately $18 million when compared to the 2015-2016 third quarter year-to-date expenditures. The decrease is largely attributed to a reduction of payments for the Asia-Pacific Gateway and Corridor Transportation Infrastructure Fund offset by an increase of contributions through the Port Asset Transfer Program as a result of the transfer of the Cornwall Port Facility to the City of Cornwall and the Mohawk Council of Akwesasne.

- **Other subsidies and payments**

  The planned expenditures related to ***Other subsidies and payments*** for 2016-2017 decreased by approximately $84 million when compared to the planned expenditures for 2015-2016. The variance is mainly due to a decrease in funding of $75 million for out of court settlement costs in regards to Lac Megantic and $8 million in the annual statutory payments to the St. Lawrence Seaway Management Corporation as a result of a decrease in asset renewal costs associated with its Modernization Project.

  The year-to-date expenditures related to ***Other subsidies and payments*** at December 31, 2016 decreased by approximately $81 million when compared to the 2015-2016 third quarter year-to-date expenditures. The decrease is mainly due to a $75 million out of court settlement payment in regards to Lac Megantic made in 2015-2016 and a lower cashflow requirement to the St. Lawrence Seaway Corporation.

- **Vote netted revenues**

  The planned revenues related to ***Vote netted revenues*** for 2016-2017 decreased by approximately $2 million when compared to the planned revenues for 2015-2016. The variance is mainly due to a decrease of $5 million in repayments for deferred airport rent which ended in December 2015 offset by minor increases in various categories.

  The year-to-date revenues related to ***Vote netted revenues*** at December 31, 2016 decreased by approximately $7 million when compared to the 2015-2016 third quarter year-to-date revenues. The variance is mainly due to a decrease in repayments for deferred airport rent which ended in December 2015.

3. Risks and Uncertainties

Transport Canada maintains a Corporate Risk Profile which identifies and assesses high-level risks that could affect the achievement of the Department's 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 the Department's key risk areas is presented in the Report on Plans and Priorities.

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

In the previous year, Transport Canada identified a risk of exceeding its operating budget and took a number of measures to ensure it remained within its delegated appropriations. Through tight controls over hiring and restraint in operating spending, the department has contained and managed the situation through attrition. As of December 2016, resource levels have stabilized both financially and operationally.

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 have also resulted in a backlog of compensation transactions, most notably acting pay transactions. Although the impact to the year-to-date expenditures reflected in the Quarterly Financial Report is not material, Transport Canada is monitoring the situation and will be recording year-end accounting entries related to the Phoenix pay issues, based on the guidance received from the Office of the Comptroller General.

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

Effective November 4, 2015, the Gordie Howe International Bridge (previously called the Detroit River International Crossing) project was transferred from Transport Canada to Infrastructure Canada. In 2015-2016, expenditures related to the Gordie Howe International Bridge were reflected in Transport Canada's financial reports. In 2016-2017, these expenditures are included in Infrastructure Canada's financial reports.

On November 7, 2016, Prime Minister Justin Trudeau, along with Minister Garneau, announced the $1.5 billion national Oceans Protection Plan, which will:

- improve marine safety and responsible shipping;
- protect Canada's marine environment; and
- strengthen partnerships with Indigenous and coastal communities.

The Oceans Protection Plan will provide Canada with the framework it needs to be better equipped, better regulated and better prepared to protect marine environment and coastal communities.

Transport Canada is co-ordinating the development of the whole-of-government implementation plan for this initiative and is working with central agencies and other affected departments to seek approval for the funding necessary to begin implementing the program.

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

Approved by:

Original signed by	Original signed by
Michael Keenan, Deputy Minister Ottawa, Canada	André Lapointe, Chief Financial Officer Ottawa, Canada
March 1, 2017	March 1, 2017

Statement of Authorities (Unaudited)

(in thousands of dollars)	Fiscal year 2016-2017			Fiscal year 2015-2016		
	Total available for use for the year ending March 31, 2017 (1)	Used during the quarter ended December 31, 2016	Year to date used at quarter-end	Total available for use for the year ending March 31, 2016 (1)	Used during the quarter ended December 31, 2015	Year to date used at quarter-end
Vote 1 - Operating expenditures	684,407	143,134	402,106	723,789	235,467	540,915
Vote 1 - Revenue credited to the vote	(78,429)	(18,979)	(51,221)	(80,923)	(20,920)	(58,326)
Vote 5 - Capital expenditures	151,672	31,974	47,333	187,157	38,269	56,860
Vote 10 - Grants and contributions (2)	-	-	-	667,887	62,344	113,764
Vote 10 - Grants and contributions – Gateways and corridors (2)	257,904	5,539	19,596	-	-	-
Vote 15 - Grants and contributions – Transportation infrastructure (2)	128,659	31,843	70,866	-	-	-
Vote 20 - Grants and contributions – Other (2)	50,414	1,194	2,503	-	-	-
Budgetary statutory authorities						
Contributions to employee benefit \ plans	76,713	5,868	41,075	71,192	17,798	53,394
Minister of Transport – Salary and motor car allowance	84	15	47	82	21	103
Payments to the Canadian National Railway Company – Victoria Bridge, Montreal	3,300	1,167	2,743	3,300	-	1,041
Northumberland Strait Crossing Subsidy Payment	65,344	-	63,588	63,789	-	62,335
Refunds of amounts credited to revenues in previous years	-	-	1	-	-	7
Payments in respect of St. Lawrence Seaway Agreements	127,200	70,634	121,473	135,300	71,673	128,351
Total budgetary authorities	**1,467,268**	**272,389**	**720,110**	**1,771,573**	**404,652**	**898,444**

Notes:

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

(2) Starting in 2016-2017, the Department of Transport is the subject of a pilot project through which its grants and contributions will appear in separate votes based on a program structure. Therefore, Transport's grants and contributions are divided into three separate votes in 2016–2017 based on the departmental Program Alignment Architecture.

Departmental Budgetary Expenditures by Standard Object (Unaudited)

(in thousands of dollars)	Fiscal year 2016-2017			Fiscal year 2015-2016		
	Planned expenditures for the year ending March 31, 2017	Expended during the quarter ended December 31, 2016	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2016	Expended during the quarter ended December 31, 2015	Year to date used at quarter-end
Expenditures:						
Personnel	517,678	110,746	356,339	495,038	133,445	399,934
Transportation and communications	25,654	5,723	12,761	29,687	6,730	21,473
Information	4,466	526	1,150	3,066	870	1,893
Professional and special services	190,171	26,069	60,335	156,869	32,564	78,497
Rentals	7,236	1,405	5,997	9,846	2,045	5,776
Repair and maintenance	6,857	1,828	3,840	14,145	2,625	5,550
Utilities, materials and supplies	14,227	4,353	9,459	18,208	3,608	11,243
Acquisition of land, buildings and works	105,920	22,601	26,996	129,470	21,014	27,099
Acquisition of machinery and equipment	33,043	4,357	9,853	42,454	11,738	21,870
Transfer payments	505,622	39,744	159,296	734,976	62,344	177,140
Other subsidies and payments	134,823	74,016	125,306	218,737	148,589	206,295
Total gross budgetary expenditures	**1,545,697**	**291,368**	**771,332**	**1,852,496**	**425,572**	**956,770**
Less revenues netted against expenditures:						
Vote-netted revenues	(78,429)	(18,979)	(51,222)	(80,923)	(20,920)	(58,326)
Total Revenues netted against expenditures:	**(78,429)**	**(18,979)**	**(51,222)**	**(80,923)**	**(20,920)**	**(58,326)**
Total net budgetary expenditures	**1,467,268**	**272,389**	**720,110**	**1,771,573**	**404,652**	**898,444**