

Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended June 30th, 2017

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended June 30, 2017

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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 [Directive on Accounting Standards, GC 4400 Departmental Quarterly Financial Report](#), which as of April 1, 2017 has replaced the now-rescinded [Treasury Board Accounting Standard \(TBAS\) 1.3 - Departmental and Agency Quarterly Financial Report](#).

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

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) for the 2017-2018 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.

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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 decreased by approximately \$34 million, from \$1,392 million as of June 30, 2016 to \$1,358 million as of June 30, 2017, as summarized below:

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

Authorities	2017-2018 ⁽¹⁾	2016-2017 ⁽¹⁾	Variance
Vote 1 – Operating expenditures	637,575	552,279	85,296
Vote 5 – Capital expenditures	139,092	143,333	(4,241)
Vote 10 - Grants and contributions – Gateways and corridors	113,976	258,354	(144,378)
Vote 15 - Grants and contributions – Transportation infrastructure	185,062	122,252	62,810
Vote 20 - Grants and contributions – Other	47,124	46,690	434
Budgetary statutory authorities	235,164	268,938	(33,774)
Total Authorities	1,357,993	1,391,846	(33,853)

Note:

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

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 June 30, 2017 are explained below.

2.1.1 Vote 1 – Operating expenditures (Increase of \$85M)

Planned operating authorities increased by \$85 million from 2016-2017 to 2017-2018 mostly explained by the following factors:

- Increase in planned spending of:
 - \$41 million in funding for the Oceans Protection Plan;
 - \$35 million for the Safety of Railways and Transportation of Dangerous Goods; and
 - \$31 million for the divestiture phase of the Port Asset Transfer Program.
- Offset by a decrease in planned spending of:
 - \$15 million for the Ferry Services Contribution Program, as additional funds were provided in 2016-2017 for the disposal of the *MV Princess of Acadia*; and
 - \$4 million as a result of Budget 2016 reductions to travel, professional services, and advertising.

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2.1.2 Vote 5 – Capital expenditures (decrease of \$4M)

Capital expenditures authorities decreased by \$4 million from 2016-2017 to 2017-2018, largely explained by the following factors:

- Decrease in planned spending of:
 - \$12 million for the Ferry Services Contribution Program, as additional funds were received in 2016-2017 for terminal and vessel equipment upgrades.
- Offset by an increase in planned spending of:
 - \$7 million for the divestiture phase of the Port Asset Transfer Program.

2.1.3 Votes 10, 15 and 20 – Grants and contributions (decrease of \$81M)

Grants and contributions authorities as a whole decreased by \$81 million from 2016-2017 to 2017-2018, largely explained by the following factors:

- A decrease in planned spending of \$144 million for G&C Vote 10 – Gateways and corridors:
 - \$140 million for the Gateway and Border Crossings Fund as the program approaches its maturity date; and
 - \$4 million for the Asia Pacific Gateways and Corridors Initiative.
- An increase in planned spending of \$63 million for G&C Vote 15 - Transportation infrastructure:
 - \$74 million increase for the divestiture phase of the Port Asset Transfer Program;
 - \$8 million increase for the Highway 5 project under the Outaouais Road Agreement Program; and
 - \$19 million decrease for the Ferry Services Contribution Program.

2.1.4 Budgetary statutory authorities (decrease of \$34M)

The budgetary statutory authorities decreased by \$34 million mainly as a result of a decrease in capital and operating requirements associated with the St. Lawrence Seaway.

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 first quarter of 2017-2018 represent 16% of the annual planned expenditures, compared to 18% in 2016-2017.

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 June 30, 2017 are as follows:

Planned Expenditures

- The 2017-2018 increases in planned expenditures for the following Standard Objects when compared to 2016-2017 is mainly as a result of the increases in funding for the Ocean Protection Plan, the Safety of Railways and Transportation of Dangerous Goods, and the Port Asset Transfer Program. The major increases are the following:
 - **Personnel** : \$38 million
 - **Transportation and communications** : \$17 million

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- **Rentals** : \$5 million
 - **Repair and maintenance** : \$9 million
 - **Utilities, materials and supplies** : \$6 million
 - **Acquisitions of machinery and equipment** : \$11 million
- The 2017-2018 decrease of \$14 million in planned expenditures for the *Acquisitions of land, buildings and works* is mainly as a result of the decrease in funding for the Ferry Services Program.
 - **Transfer payments**
The planned expenditures related to *Transfer payments* for 2017-2018 decreased by approximately \$81 million when compared to the planned expenditures for 2016-2017. The causes of the variances are explained in section 2.1.3.
 - **Other subsidies and payments**
The planned expenditures related to *Other subsidies and payments* for 2017-2018 decreased by approximately \$31 million when compared to the planned expenditures for 2016-2017. The variance is mainly due to a decrease of \$34 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.
 - **Vote netted revenues**
The planned revenues related to *Vote netted revenues* for 2017-2018 decreased by approximately \$9 million when compared to the planned revenues for 2016-2017. The variance is mainly due to a decrease in recoveries related to the Canadian Coast Guard Fleet Renewal project.

Year-to-Date Expenditures

- The year-to-date expenditures related to *Professional and special services* for 2017-2018 decreased by approximately \$7 million compared to the 2016-2017 first quarter year-to-date expenditures. The decrease is largely due to a timing issue in the payment to the Department of Justice for legal services, which occurred in Q1 during 2016-2017 and in Q2 in 2017-2018.
- The year-to-date expenditures related to *Transfer payments* at June 30, 2017 decreased by approximately \$17 million when compared to the 2016-2017 first quarter year-to-date expenditures. The decrease is largely attributed to a decrease in contributions to Transportation Infrastructure through the Port Divestiture Fund and the grant to British Columbia – Provision of Ferry, Coastal, Freight and Passenger Services as these programs reach their maturity.
- The year-to-date expenditures related to *Other subsidies and payments* at June 30, 2017 decreased by approximately \$16 million when compared to the 2016-2017 first quarter year-to-date expenditures. The decrease is mainly due to a lower cash flow requirement to the St. Lawrence Seaway Management Corporation.

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 [Departmental Plans \(DP\)](#).

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

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Department 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 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.

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

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 has coordinated the development of the whole-of-government implementation plan for this initiative and worked with central agencies and other affected departments to launch this program as of April 1, 2017.

On July 4, 2017, Minister Garneau announced \$2.1 billion for the [Trade and Transportation Corridors Initiative](#) to build stronger, more efficient transportation corridors to international markets and to support job creation. Transport Canada is working with central agencies to seek approval for the funding necessary to launch this program this year and be ready to start new infrastructure projects in the 2018 construction season.

On June 6, 2017, the Deputy Minister and Associate Deputy Minister announced the following changes to the department's senior management team:

- The appointment of Lawrence Hanson to the position of Assistant Deputy Minister (ADM), Policy, effective June 19, 2017;
- The appointment of Lori MacDonald to the position of Senior Advisor, Safety and Security Renewal, effective June 26, 2017; and
- The appointment of Pierre-Marc Mongeau to the position of Assistant Deputy Minister (ADM), Programs, effective July 4, 2017.

Approved by:

Original signed by

Helena Borges,
Acting as Deputy Minister
Ottawa, Canada

August 23, 2017

Original signed by

André Lapointe,
Chief Financial Officer
Ottawa, Canada

August 22, 2017

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Statement of Authorities (Unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2017-2018			Fiscal year 2016-2017		
	Total available for use for the year ending March 31, 2018 ⁽¹⁾	Used during the quarter ended June 30, 2017	Year to date used at quarter-end	Total available for use for the year ending March 31, 2017 ⁽¹⁾	Used during the quarter ended June 30, 2016	Year to date used at quarter-end
Vote 1 - Operating expenditures	706,557	124,709	124,709	630,708	126,427	126,427
Vote 1 - Revenue credited to the vote	(68,982)	(10,512)	(10,512)	(78,429)	(12,159)	(12,159)
Vote 5 - Capital expenditures	139,092	3,908	3,908	143,333	4,223	4,223
Vote 10 - Grants and contributions – Gateways and corridors	113,976	2,077	2,077	258,354	5,425	5,425
Vote 15 - Grants and contributions – Transportation infrastructure	185,062	9,089	9,089	122,252	24,658	24,658
Vote 20 - Grants and contributions – Other	47,124	-	-	46,690	3	3
Budgetary statutory authorities						
Contributions to employee benefit plans	73,114	-	-	73,010	-	-
Minister of Transport – Salary and motor car allowance	84	21	21	84	7	7
Payments to the Canadian National Railway Company – Victoria Bridge, Montreal	3,300	940	940	3,300	716	716
Northumberland Strait Crossing Subsidy Payment	65,845	64,942	64,942	65,344	63,588	63,588
Refunds of amounts credited to revenues in previous years	-	-	-	-	1	1
Payments in respect of St. Lawrence Seaway Agreements	92,821	25,000	25,000	127,200	42,002	42,002
Total budgetary authorities	1,357,993	220,174	220,174	1,391,846	254,891	254,891

Notes:

(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 2017-2018			Fiscal year 2016-2017		
	Planned expenditures for the year ending March 31, 2018	Expended during the quarter ended June 30, 2017	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2017	Expended during the quarter ended June 30, 2016	Year to date used at quarter-end
Expenditures:						
Personnel	532,993	108,811	108,811	495,459	106,020	106,020
Transportation and communications	37,490	4,763	4,763	20,559	3,407	3,407
Information	3,902	181	181	3,112	232	232
Professional and special services	159,934	7,930	7,930	164,424	14,692	14,692
Rentals	11,727	939	939	6,271	1,116	1,116
Repair and maintenance	15,000	782	782	6,080	1,371	1,371
Utilities, materials and supplies	18,396	3,074	3,074	12,376	2,179	2,179
Acquisition of land, buildings and works	85,356	32	32	99,137	391	391
Acquisition of machinery and equipment	43,394	1,907	1,907	32,230	2,077	2,077
Transfer payments	415,306	77,048	77,048	495,940	94,390	94,390
Other subsidies and payments	103,477	25,219	25,219	134,687	41,175	41,175
Total gross budgetary expenditures	1,426,975	230,686	230,686	1,470,275	267,050	267,050
Less revenues netted against expenditures:						
Vote-netted revenues	(68,982)	(10,512)	(10,512)	(78,429)	(12,159)	(12,159)
Total Revenues netted against expenditures:	(68,982)	(10,512)	(10,512)	(78,429)	(12,159)	(12,159)
Total net budgetary expenditures	1,357,993	220,174	220,174	1,391,846	254,891	254,891