

Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended September 30th, 2019

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended September 30, 2019

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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.

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 2019-2020 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 \$354.5 million, from \$1,610.4 million as of September 30, 2018 to \$1,964.9 million as of September 30, 2019, as summarized below:

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

Authorities ⁽³⁾	2019-2020 ^(1 & 2)	2018-2019 ⁽¹⁾	Variance
Vote 1 – Net operating expenditures	748,617	739,021	9,596
Vote 5 – Capital expenditures	166,013	163,329	2,684
Vote 10 – Grants and contributions – Efficient Transportation System	605,098	413,110	191,988
Vote 15 – Grants and contributions – Green and Innovative Transportation System	192,407	41,602	150,805
Vote 20 – Grants and contributions – Safe and Secure Transportation System	33,798	27,773	6,025
Budgetary statutory authorities ⁽³⁾	218,984	225,557	(6,573)
Total Authorities	1,964,917	1,610,392	354,525

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 quarter ended September 30, 2019 are explained below.

2.1.1 Vote 1 – Net Operating Expenditures (Increase of \$9.6 million)

Planned operating authorities has increased by \$9.6 million from 2018-2019 to 2019-2020 mostly explained by the following factors:

- An increase in funding of:
 - \$13.4 million for the National Trade Corridors Fund to allow Canadians to compete in key global markets, trade more efficiently with international partners, and create jobs for Canadians;
 - \$7.5 million for the [Canadian Navigable Waterways Act](#) (CNWA) to transition to new impact assessment and regulatory processes;
 - \$4.9 million for the Proceeds of Sales from the Disposition of Real Property to use the proceeds to support environmental remediation;
 - \$4.7 million for the Federal Contaminated Sites Action Plan which is a continuation of government efforts to clean up contaminated sites;

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- \$3.8 million for Delivering Better Service for Air Travellers to ensure that air travellers and workers at airports are effectively screened;
 - \$2.9 million to allow the Government to complete its due diligence of VIA Rail's High Frequency Rail proposal; and
 - \$2.7 million for the Enhanced Road Safety Transfer Payment Program to modernize regulatory frameworks.
- Offset by a decrease in funding of:
 - \$23.8 million for the Port Asset Transfer Program (PATP) to reduce the number of TC owned ports, through sale, divestiture or closure/demolition; and
 - \$6.6 million in the Operating Budget Carry Forward compared to the previous fiscal year.

2.1.2 Vote 5 – Capital Expenditures (Increase of \$2.7 million)

Planned Capital authorities have increased by \$2.7 million from 2018-2019 to 2019-2020 mostly explained by the following factors:

- An increase in funding of:
 - \$13.2 million from Budget 2018 for Strengthening Airports Serving remote Communities;
 - \$4.3 million for the World Class Tanker Safety System to prevent pollution from ships;
 - \$3.1 million for the [Canadian Navigable Waters Act](#) to transition to new impact assessment and regulatory processes; and
 - \$2.8 million in the Capital Budget Carry Forward compared to the previous year.
- Offset by a decrease in funding of:
 - \$8.3 million for Protecting Marine Life, including the protection and recovery of endangered whale populations;
 - \$4.8 million for Road Safety as part of the Federal Infrastructure Initiative (FII);
 - \$4.3 million for the Remotely Piloted Aircraft System as part of the Federal Infrastructure Initiative; and
 - \$3.7 million for the upkeep of assets related to ferry services in Eastern Canada under the Ferry Services Program.

2.1.3 Vote 10 – Grants and Contributions – Efficient Transportation System (Increase of \$192.0 million)

Grant and contribution authorities for Vote 10 increased by \$192.0 million from 2018-2019 to 2019-2020 and is largely explained by the following factors:

- An increase in funding of:
 - \$173.3 million for the National Trade Corridors Fund; and
 - \$59.1 million for the Port Asset Transfer Program.
- Offset by a decrease in funding for the following programs that are approaching retirement:
 - \$37.1 million for the Gateways and Border Crossings Fund; and
 - \$4.8 million for the Asia Pacific Gateway and Corridor Infrastructure.

2.1.4 Vote 15 – Grants and Contributions – Green and Innovative Transportation System (Increase of \$150.8 million)

Grant and contribution authorities for Vote 15 increased by \$150.8 million from 2018-2019 to 2019-2020, largely explained by the following factors:

- An increase in funding of:
 - \$127.4 million for Encouraging Canadians to Use Zero Emission Vehicles;
 - \$19.6 million for the Program to Protect Canada's Coastlines and Waterways; and
 - \$4.3 million for the Program to Advance Indigenous Reconciliation (PAIR).

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2.1.5 Vote 20 – Grants and Contributions – Safe and Secure Transportation System (Increase of \$6.0 million)

Grant and contribution authorities for Vote 20 increased by \$6.0 million from 2018-2019 to 2019-2020, largely explained by an increase in funding for the Enhanced Road Safety Transfer Payment Program.

2.1.6 Budgetary Statutory Authorities (Decrease of \$6.6 million)

The planned expenditures for the budgetary statutory authorities decreased by \$6.6 million mainly as a result of a decrease in capital and operating requirements associated with the St. Lawrence Seaway Management Corporation (SLSMC) in the amount of \$17.8 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 decrease in planned spending is explained by a reduction in funding provided by Transport Canada to SLSMC following the completion of its modernization program. The decrease in planned spending was offset by an increase of \$11.5 million in planned spending for Employee Benefits Plan and a decrease of \$0.3 million for the Northumberland Strait Crossing Subsidy Payment.

2.2 Statement of Departmental Budgetary Expenditures by Standard Object

The accompanying 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 second quarter of 2019-2020 represent 29% of the annual planned expenditures, compared to 30% in 2018-2019.

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 the mid-year internal budget reallocations, and a 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 September 30, 2019 are as follows:

Planned Expenditures

○ **Personnel**

The planned expenditures related to **Personnel** for 2019-2020 increased by approximately \$69.5 million primarily due to an increase in funding for the following initiatives:

- \$28.9 million for a reallocation of planned spending to personnel based on previous years' expenditures;
- \$14.6 million as a result of increased staffing levels as TC implements various Budget 2018 and 2019 initiatives;
- \$11.0 million for an increase in Employee Benefit Plan;
- \$8.7 million in the Operating Budget Carry Forward for 2019-2020; and
- \$6.0 million in Capital Salary funding.

○ **Professional and Special Services**

The planned expenditures related to **Professional and Special Services** decreased by approximately \$26.8 million, mainly a result of the decrease in funding for the Transportation Infrastructure (Port Asset Transfer Program) and a decrease in funding for the operating budget carry forward.

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

The 2019-2020 increase of \$47.6 million in planned expenditures for the *Acquisition of land, buildings and works* is mainly a result of a reallocation in planned expenditures for the St. Lawrence Seaway offset by reductions in planned spending for Budget 2014 and Budget 2016 for Federal Infrastructure Initiatives (FII) that are nearing completion.

- **Transfer payments**

The planned expenditures related to *Transfer payments* for 2019-2020 increased by approximately \$348.5 million when compared to the planned expenditures for 2018-2019. The causes of the variances are explained in section 2.1.3 to 2.1.5.

- **Other Subsidies and Payments**

The planned expenditures related to *Other Subsidies and Payments* decreased by approximately \$84.5 million and is mainly a result of a reallocation in planned expenditures for the St. Lawrence Seaway to other standard objects and a reduction of \$8.5 million in Operating budget carry forward and \$0.5 million in Capital budget carry forward.

Year-to-Date Expenditures

- **Personnel**

The year-to-date expenditures related to *Personnel* at September 30, 2019 increased by approximately \$14.7 million compared to 2018-2019. The increase is mainly driven by the rise in the number of employees due to new departmental initiatives such as the creation of a Multimodal Business Transformation Team and an increase of personnel in the Aviation Safety Certification and the Protection of Oceans and Waterways programs.

- **Professional and special services**

The year-to-date expenditures related to *Professional and special services* at September 30, 2019 increased by approximately \$20.3 million when compared to 2018-2019. The increase is largely explained by an increase of quarter-end invoicing from other government departments when compared to the previous year as well as new contracts signed for Environmental Stewardship of Transportation.

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

The year-to-date expenditures related to *Acquisition of land, buildings and works* at September 30, 2019 increased by approximately \$19.3 million when compared to 2018-2019. This increase is mainly due to the reallocation of the St. Lawrence Seaway expenditures by standard objects in the first quarter of 2019-2020 whereas in 2018-2019 the allocation was done in the last quarter. In addition, there were larger investments in 2019-2020 for projects such as the construction of a shoreward breakwater protection at the Saint John ferry Terminal and for the Port Hardy airport terminal building.

- **Transfer payments**

The year-to-date expenditures related to *Transfer payments* at September 30, 2019 increased by approximately \$58.3 million when compared to 2018-2019, mainly explained by the incentive payments for the new Zero Emission Vehicles program and higher contributions for the Ferry Services Stewardship and Support.

- **Other subsidies and payments**

The year-to-date expenditures related to *Other subsidies and payments* at September 30, 2019 decreased by approximately \$9.0 million when compared to 2018-2019. This decrease is mainly explained by the reallocation of the St. Lawrence Seaway expenditures by standard object in the first quarter of 2019-2020 whereas last year the allocation was done in the last quarter.

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3. Risks and Uncertainties

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 [2019-2020 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. 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. As highlighted in section 4 below, there have been a number of changes in senior personnel within the last quarter. Transport Canada mitigates that risk through its succession planning strategy, as well as promptly launching staffing processes and having experienced personnel acting in those roles during their vacancy.

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

The following changes in senior personnel occurred during the second quarter:

- On August 7, 2019, Prime Minister, Justin Trudeau announced the departure of Thao Pham, Associate Deputy Minister for Transport Canada following her appointment as Deputy Secretary to the Cabinet, Operations at the Privy Council Office, effective August 19, 2019;
- On September 11, 2019, following Claude Corbin's new appointment as Director General, Financial Partnership of Immigration, Refugees and Citizenship Canada (IRCC), the Deputy Minister announced the appointment of Jane Weldon as Executive Head, Oceans Protection Plan, effective September 23, 2019.

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Approved by:

Original signed by

Michael Keenan,
Deputy Minister
Ottawa, Canada

November 29, 2019

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

November 26, 2019

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Statement of Authorities (unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2019-2020			Fiscal year 2018-2019		
	Total available for use for the year ending March 31, 2020 ⁽¹⁾	Used during the quarter ended September 30, 2019	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2019 ⁽¹⁾	Used during the quarter ended September 30, 2018	Year-to-date used at quarter-end
Vote 1 – Operating expenditures	825,267	203,136	370,666	808,594	166,321	326,675
Vote 1 – Revenue credited to the vote	(76,650)	(25,171)	(35,791)	(69,573)	(22,363)	(33,178)
Vote 1 – Net operating expenditures	748,617	177,965	334,875	739,021	143,958	293,497
Vote 5 – Capital expenditures	166,013	21,588	25,819	163,329	14,583	19,834
Vote 10 – Grants and contributions – Efficient Transportation System	605,098	25,772	52,583	413,110	27,026	40,499
Vote 15 – Grants and contributions – Green and Innovative Transportation System	192,407	41,961	47,065	41,602	918	968
Vote 20 – Grants and contributions – Safe and Secure Transportation System	33,798	879	922	27,773	513	514
Budgetary statutory authorities						
Contributions to employee benefit plans	88,452	19,885	39,770	77,000	18,817	37,634
Minister of Transport – Salary and motor car allowance	88	22	44	86	22	43
Railway Company – Victoria Bridge, Montreal	3,300	-	-	3,300	639	1,230
Northumberland Strait Crossing Subsidy Payment	67,273	-	66,999	67,544	-	66,046
Payments in respect of St. Lawrence Seaway Agreements	59,871	799	11,399	77,627	608	18,208
Total Budgetary statutory authorities	218,984	20,706	118,212	225,557	20,086	123,161
Total budgetary authorities	1,964,917	288,871	579,476	1,610,392	207,084	478,473

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 2019-2020			Fiscal year 2018-2019		
	Planned expenditures for the year ending March 31, 2020	Expended during the quarter ended September 30, 2019	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2019	Expended during the quarter ended September 30, 2018	Year-to-date used at quarter-end
Expenditures:						
Personnel	650,390	153,959	305,452	580,929	143,989	290,756
Transportation and communications	38,461	6,637	13,070	36,310	7,399	14,093
Information	6,642	522	1,102	4,503	555	993
Professional and special services	185,141	37,689	58,906	211,915	22,365	38,598
Rentals	12,938	4,230	5,858	12,270	3,892	4,593
Repair and maintenance	13,550	3,391	4,551	13,389	2,357	3,901
Utilities, materials and supplies	18,328	4,389	8,587	19,474	4,185	8,590
Acquisition of land, buildings and works	136,661	19,138	28,909	89,044	8,492	9,636
Acquisition of machinery and equipment	60,043	7,178	10,628	56,776	6,013	11,507
Transfer payments	901,876	68,612	167,569	553,329	29,096	109,257
Other subsidies and payments	17,537	8,297	10,635	102,026	1,104	19,727
Total gross budgetary expenditures	2,041,567	314,042	615,267	1,679,965	229,447	511,651
Less Revenues netted against expenditures:						
Vote-netted revenues	(76,650)	(25,171)	(35,791)	(69,573)	(22,363)	(33,178)
Total Revenues netted against expenditures:	(76,650)	(25,171)	(35,791)	(69,573)	(22,363)	(33,178)
Total net budgetary expenditures	1,964,917	288,871	579,476	1,610,392	207,084	478,473