Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended December 31st, 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Accounting Standards, GC 4400 Departmental Quarterly Financial Report, which as of April 1, 2017 has replaced the now-rescinded Treasury Board Accounting Standard (TBAS) 1.3 - Departmental and Agency Quarterly Financial Report.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) 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 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 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.

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 $30 million, from $1,467 million as of December 31, 2016 to $1,497 million as of December 31, 2017, as summarized below:

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

Authorities	2017-2018 (1)	2016-2017 (1)	Variance
Vote 1 – Net operating expenditures	717,441	605,978	111,463
Vote 5 – Capital expenditures	163,553	151,672	11,881
Vote 10 – Grants and contributions – Gateways and corridors	113,976	257,904	(143,928)
Vote 15 – Grants and contributions – Transportation infrastructure	210,178	128,659	81,519
Vote 20 – Grants and contributions – Other	55,323	50,414	4,909
Budgetary statutory authorities	236,750	272,641	(35,891)
Total Authorities	**1,497,221**	**1,467,268**	**29,953**

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 December 31, 2017 are explained below.

2.1.1 Vote 1 – Operating expenditures (increase of $111M)

Planned operating authorities increased by $111 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 to improve marine safety and protect Canada's marine environment;
  - $29 million for the divestiture phase of the Port Asset Transfer Program to facilitate divestiture of Canada's ports;
  - $21 million for the retroactive salary payment related to the signature of the new collective agreements;
  - $11 million for the implementation of the Trade and Transportation Corridors Initiative to implement strategies and make direct investments in transportation infrastructure;
  - $8 million for Enhancing the Safety of Railways and Transportation of Dangerous Goods for the implementation of rail safety and reductions of injuries; and
  - $4 million for reinvestment of revenues from the sale or transfer of Real Property.

2.1.2 Vote 5 – Capital expenditures (increase of $12M)

Capital expenditures authorities increased by $12 million from 2016-2017 to 2017-2018, largely explained by the following factors:

- An increase in planned spending of:

- $15 million due to higher Capital Budget Carry Forward when compared to the prior year; and
- $6 million for the divestiture phase of the Port Asset Transfer Program to facilitate divestiture of Canada's ports.

- Offset by a decrease in planned spending of:
  - $11 million for Ferry Services Contribution Program, as funds were received in 2016-2017 for terminal and vessel equipment upgrades.

2.1.3 Votes 10, 15 and 20 – Grants and contributions (decrease of $58M)

Grants and contributions (G&C) authorities as a whole decreased by $58 million from 2016-2017 to 2017-2018, largely explained by the following factors:

- A decrease in planned spending for G&C Vote 10 – Gateways and corridors:
  - $140 million for the Gateways and Border Crossings Fund as the program approaches its maturity date; and
  - $4 million for the Asia Pacific Gateway and Corridor Initiative.

- An increase in planned spending for G&C Vote 15 - Transportation infrastructure:
  - $68 million for the divestiture phase of the Port Asset Transfer Program;
  - $8 million for the Highway 5 project under the Outaouais Road Agreement Program; and
  - $5 million for the Airport Capital Assistance Program.

- An increase in planned spending for G&C Vote 20 – Other
  - $12 million in funding for Enhancing the Safety of Railways and the Transportation of Dangerous Goods; and
  - $6 million for the Oceans Protection Plan.

- Offset by a decease in G&C Vote 20 – Other
  - $8 million in sun-setting of funding for the Ocean Networks Canada – Smart Oceans Contribution Program;
  - $6 million for Clean Initiatives as a result of a reduction in the current year cash flow requirement from recipients;
  - $2 million for the *Navigable Waters Protection Act.*

2.1.4 Budgetary statutory authorities (decrease of $36M)

The budgetary statutory authorities decreased by $36 million mainly as a result of a decrease in capital and operating requirements associated with the St. Lawrence Seaway Management Corporation (SLSMC). 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 the reduced funding provided by Transport Canada for the SLSMC's Modernization Project as it nears completion.

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 2017-2018 represent 49% of the annual planned expenditures which is consistent with the prior year.

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. 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 due to a timing difference between the date when the goods or services were obtained and when the invoices were received. In addition, there is also a ramp up of operational activities in the last quarter once the mid-year internal budget reallocations are completed as well as the increased funding for new initiatives such as the Oceans Protection Plan for which the expenditures will be mostly incurred in the fourth quarter.

The major year-to-year variances as at December 31, 2017 are as follows:

Planned Expenditures

- The 2017-2018 increases in planned expenditures for the Standard Objects listed below are mainly as a result of the increases in funding for the Oceans Protection Plan, the Safety of Railways and Transportation of Dangerous Goods, the Port Asset Transfer Program and the Trade and Transportation corridors Initiative:
  - **Transportation and communications:** $18 million
  - **Professional and special services:** $7 million
  - **Rentals:** $6 million
  - **Repair and Maintenance:** $9 million
  - **Utilities, materials and supplies:** $6 million
  - **Acquisitions of machinery and equipment:** $20 million

- **Personnel**

  The planned expenditures related to ***Personnel*** for 2017-2018 increased by approximately $47 million mostly as a result of increases in funding for the Oceans Protection Plan, Collective Agreements and Trade and Transportation Corridors Initiative.

- **Transfer payments**

  The planned expenditures related to ***Transfer payments*** for 2017-2018 decreased by approximately $57 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 causes of the variances are explained in section 2.1.4 offset by an increase in Employee Benefit Plan of $5 million.

- **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 the anticipated level of technical services provided by Transports Canada’s Aircraft Services Directorate to the Canadian Coast Guard (CCG) due to completion of the CCG’s helicopter fleet renewal project in 2016-17. Technical services include inspections, aircraft maintenance and modification, component overhaul, quality assurance, logistic support and the commissioning of the helicopters.

Year-to-Date Expenditures

- **Personnel**

  The year-to-date expenditures related to ***Personnel*** at December 31, 2017 increased by approximately $57 million compared to the 2016-2017. Approximately $29 million is attributed to the payment of retroactive salaries related to the signature of the new collective agreements. Of this amount, $21 million was funded by the Treasury Board Secretariat while the remaining balance was funded within the department’s existing reference levels. The other main factor that resulted in the rise of personnel expenditures is an approximate increase of 400 employees since the beginning of the fiscal year for the Oceans Protection Plan, the Safety of Railways and Transportation of Dangerous Goods, the Port Asset Transfer Program and the Trade and Transportation corridors Initiative.

- **Transportation and communications**

  The year-to-date expenditures related to ***Transportation and communications*** at December 31, 2017 increased by approximately $8 million when compared to the 2016-2017. This increase is mainly attributed to the increases in travel and relocation costs associated with the oversight activities and stakeholder consultations for new initiatives such as the Oceans Protection Plan and the Trade and Transportation corridors Initiative.

- **Professional and special services**

  The year-to-date expenditures related to ***Professional and special services*** at December 31, 2017 increased by approximately $6 million when compared to the 2016-2017. This increase is mainly attributed to services related to the remediation of contaminated sites in Prairie and Northern Region such as Iqaluit Metal Dump and the Whitehorse International Airport North Apron.

- **Transfer *payments***

  The year-to-date expenditures related to ***Transfer payments*** at December 31, 2017 decreased by approximately $18 million when compared to the 2016-2017. This decrease is largely attributed to a reduction in contributions from the Port Asset Transfer Program as a result of the transfer of the Cornwall Port Facility to the City of Cornwall completed in 2016-2017 ($5 million) and a reduction in the Ferry and Costal Freight Services and in the Ferry Services Contribution Program with Northumberland Ferries Ltd ($6 million). The decrease in the contribution to Northumberland Ferries Ltd is mainly due last year's unforeseen expenses related to the MV Holiday Island. In addition, there was a decrease in the transfer payments related to Regional Remote Rail-Tshieutin Railway and Port of Trois-Rivieres Multipurpose Terminal ($10 million).

- **Other *Subsidies and Payments***

  The year-to-date expenditures related to ***Other Subsidies and Payments*** at December 31, 2017 decreased by approximately $50 million when compared to the 2016-2017. This decrease is mainly due to a lower cash flow requirement to the St. Lawrence Seaway Management Corporation as their Modernization Project nears completion.

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 2017-18 Departmental Plan.

Certain risks would 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.

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 (PSPC) 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. The department works with the employee to recover the funds through a repayment plan to ensure there is no undue hardship for the employee. 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.

As described in section 4 below, 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. The Department'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 recruitment of a significant number of qualified resources within a short time frame could also be a challenge for the department in delivering on its planned activities.

4. Significant changes in relation to operations, personnel and programs

Transport Canada has started advancing the Oceans Protection Plan (OPP) and the Trade and Transportation Corridors Initiatives. These two initiatives, highlighted in previous quarterly financial reports, are part of the department's transformation agenda that will better anticipate and respond to the present and future demands of the transportation sector and support innovation, while ensuring that the department remains on a sustainable financial footing for the long term.

As part of its transformation agenda, Transport Canada will also be rolling out six modernization initiatives over the coming years, consisting of:

- Modernizing outdated legislation and regulations;
- Modernizing its oversight regimes;
- Modernizing its cost-recovery regime;
- Modernizing the marine and aviation safety regulatory frameworks;
- Strengthening Canada's engagement with international partners; and
- Strengthening the economic competitiveness of Canada's aerospace sector.

Additional details on these initiatives are presented in the 2016-17 Departmental Results Report.

During the quarter, the Department's authorized spending levels increased by $94 million to $1,497 million. This increase was attributable to the following:

- $21 million for the retroactive salary payment related to the signature of the new collective agreements; and
- $73 million of funding received through Supplementary Estimates (B).

In addition, the following changes in senior personnel occurred during the third quarter:

- On October 10, 2017, the Deputy Minister and Associate Deputy Minister announced the appointment of Lori MacDonald to the position of Assistant Deputy Minister, Safety and Security, effective November 1, 2017;

- On November 17, 2017, Prime Minister, Justin Trudeau announced the appointment of Thao Pham to the position of Associate Deputy Minister of Transport, effective November 20, 2017; and

- On December 21, 2017, the Deputy Minister and Associate Deputy Minister announced that Donald Roussel, Associate Assistant Deputy Minister, Safety and Security, will assume the position of Senior Advisor to the Assistant Deputy Minister, effective January 8, 2018. The department will be launching an advertised process to staff the Associate ADM position on an indeterminate basis. Aaron McCrorie, Director General, Civil Aviation, will act as Associate ADM for four months starting January 8, 2018.

Approved by:

Original signed by	Original signed by
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Michael Keenan, Deputy Minister Ottawa, Canada	André Lapointe, Chief Financial Officer Ottawa, Canada
February 28, 2018	February 26, 2018

Statement of Authorities (unaudited)

(in thousands of dollars)	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 December 31, 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 December 31, 2016	Year-to-date used at quarter-end
Vote 1 – Operating expenditures	786,423	175,144	477,606	684,407	143,134	402,106
Vote 1 – Revenue credited to the vote	(68,982)	(20,466)	(51,136)	(78,429)	(18,979)	(51,221)
Vote 1 – Net operating expenditures	**717,441**	**154,678**	**426,470**	**605,978**	**124,155**	**350,885**
Vote 5 – Capital expenditures	163,553	21,693	43,674	151,672	31,974	47,333
Vote 10 – Grants and contributions – Gateways and corridors	113,976	9,079	20,771	257,904	5,539	19,596
Vote 15 – Grants and contributions – Transportation infrastructure	210,178	24,821	49,888	128,659	31,843	70,866
Vote 20 – Grants and contributions – Other	55,323	2,291	3,846	50,414	1,194	2,503
Budgetary statutory authorities						
Contributions to employee benefit plans	74,700	11,468	45,872	76,713	5,868	41,075
Minister of Transport – Salary and motor car allowance	84	21	63	84	15	47
Railway Company – Victoria Bridge, Montreal	3,300	700	2,279	3,300	1,167	2,743
Northumberland Strait Crossing Subsidy Payment	65,845	-	64,942	65,344	-	63,588
Refunds of amounts credited to revenues in previous years		29	29	-	-	1
Spending of proceeds from Crown Asset		1	1	-	-	-
Payments in respect of St. Lawrence Seaway Agreements	92,821	42,672	71,248	127,200	70,634	121,473
Total Budgetary statutory authorities	236,750	54,891	184,434	272,641	77,684	228,927
Total budgetary authorities	**1,497,221**	**267,453**	**729,083**	**1,467,268**	**272,389**	**720,110**

Notes:

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

Departmental budgetary expenditures by Standard Object (unaudited)

(in thousands of dollars)	Fiscal year 2017-2018			Fiscal year 2016-2017		
	Planned expenditures for the year ending March 31, 2018	Expended during the quarter ended December 31, 2017	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2017	Expended during the quarter ended December 31, 2016	Year-to-date used at quarter-end
Expenditures:						
Personnel	564,283	133,264	413,747	517,678	110,746	356,339
Transportation and communications	43,437	9,744	20,690	25,654	5,723	12,761
Information	3,902	807	1,599	4,466	526	1,150
Professional and special services	196,809	33,211	65,965	190,171	26,069	60,335
Rentals	13,123	1,456	5,730	7,236	1,405	5,997
Repair and maintenance	15,733	3,422	5,693	6,857	1,828	3,840
Utilities, materials and supplies	20,700	4,893	11,911	14,227	4,353	9,459
Acquisition of land, buildings and works	103,329	15,443	27,019	105,920	22,601	26,996
Acquisition of machinery and equipment	52,788	4,509	10,462	33,043	4,357	9,853
Transfer payments	448,622	36,891	141,727	505,622	39,744	159,296
Other subsidies and payments	103,477	44,279	75,676	134,823	74,016	125,305
Total gross budgetary expenditures	**1,566,203**	**287,919**	**780,219**	**1,545,697**	**291,368**	**771,332**
Less Revenues netted against expenditures:						
Vote-netted revenues	(68,982)	(20,466)	(51,136)	(78,429)	(18,979)	(51,222)
.						
Total Revenues netted against expenditures:	**(68,982)**	**(20,466)**	**(51,136)**	**(78,429)**	**(18,979)**	**(51,222)**
Total net budgetary expenditures	**1,497,221**	**267,453**	**729,083**	**1,467,268**	**272,389**	**720,110**