

Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended December 31, 2011

Transport Canada Quarterly Financial Report

Statement outlining results, risks and significant changes in operations, personnel and program
For the Quarter ended December 31, 2011

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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 [Treasury Board Accounting Standard 1.3](#). The quarterly report should be read in conjunction with the Main Estimates, Supplementary Estimates and previous quarterly financial reports for the current year.

1.1 Authority, Mandate and Program Activities

A summary description of Transport Canada's program activities can be found 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 (B) for the 2011-2012 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 and published in the Departmental Performance Report. However, the spending authorities voted by Parliament remain on an expenditure basis.

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

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2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) Results

These highlights should be read in conjunction with previous quarterly financial reports for the current year.

2.1 Statement of Authorities

The statement attached at the end illustrates authorities used for the quarter as well as authorities used to date for both the current and previous fiscal year. Transport Canada's authorities available for use in 2011-2012 decreased by approximately \$254 million when compared to the same quarter of the previous fiscal year, as summarized below:

Description of activity (in million of dollars)	Expenditures	Revenues	Net Expenditures
Vote 1 – Operating Expenditures	(41)	(1)	(42)
Vote 5 – Capital Expenditures	(126)	-	(126)
Vote 10 – Grants and Contributions	(128)	-	(128)
Vote 17 – Forgiveness of Saint John Harbour Bridge Authority's Loans	23	-	23
Budgetary statutory authorities			
Employee Benefit Plan	5	-	5
Grants and Contributions	1	-	1
Other Statutory Payments	13	-	13
Total Variance in Authorities	(253)	(1)	(254)

2.1.1 Vote 1 – Net Operating expenditures (decrease of \$42M)

The variance is primarily a result of decreased planned spending on a number of initiatives including the assessment, management and remediation of projects to be carried out under the Federal Contaminated Sites Action Plan (\$35 million), the sunsetting of the ecoTransport Strategy Initiative Program (\$8.0 million) and a decrease in planned spending as a result of the 2008 Strategic Review Reduction (\$5.1 million). These reductions are offset by new funding for items such as the reprofiling of funding for the Divestiture of the Mirabel Airport of \$4.4 million.

By standard object, the decrease in planned spending of \$42 million is reflected in a decrease in planned expenditures of \$8.9 million in transportation and communications, \$16.6 million in professional and special services and \$12.6 million in repair and maintenance.

When compared to the previous year's third quarter, expenditures at the third quarter of 2011-2012 show a decrease of \$5.2 million which is primarily a result of reduced spending on Environmental Remediation of \$2.8 million and an increase in revenues of \$2.8 million.

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2.1.2 Vote 5 – Capital expenditures (decrease of \$126M)

The variance is primarily explained by a decrease in the planned spending for the Detroit River International Crossing project (\$111.4 million), a decrease in planned spending for the Modernizing of Federal Laboratories as announced in Budget 2009 (\$9.7 million) and a decrease of \$7.4 million as a result of a vote transfer from Capital to Grants and Contributions for the Port Divestiture Fund.

By standard object, the decrease in planned expenditures is reflected in planned expenditure decreases for the acquisition of land, buildings and works of \$103 million and for the acquisition of machinery and equipment of \$22.6 million.

When compared to the previous year's third quarter, Capital Expenditures for the third quarter of 2011-2012 have decreased by approximately \$3.4 million. The variation is primarily related to a decrease in spending on the Detroit River International Crossing Project of \$2.2 million and various other projects.

2.1.3 Vote 10 – Grants and Contributions (decrease of \$128M)

The variance is largely due to a decrease in planned spending regarding the Gateways and Border Crossings Fund (\$263.8 million), along with a decrease in the Port Divestiture Fund (\$12.3 million) offset by increases in planned spending for the Asia Pacific Gateway and Corridor Transportation Infrastructure Fund of \$95.7 million, \$22 million for the Airports Capital Assistance Program, \$16.2 million in Grants for the First Nations regarding the Port of Prince Rupert development and \$12.7 million for Regional and Remote Passenger Rail Services .

When compared to the previous year's year-end, there was an increase in Grants and Contribution expenditures of \$9.6 million for the year-end 2011-2012. This is mainly attributable to reduced spending on the Port Divestiture Fund (\$13.5 million) and the Gateways and Border Crossings Fund (\$18.7 million) offset by increased spending for the Airports Capital Assistance Program (\$13.0 million), Asia Pacific Gateway and Corridor Transportation Infrastructure Fund (\$24.3 million) and the Ferry and Coastal Passenger and Freight Service (\$5.1 million).

When compared to the previous year's third quarter, expenditures for the third quarter of 2011-2012 reveal a variance of \$35.3 million. This variance is largely attributable to increased spending of \$24.7 million on the Asia Pacific Gateway and Corridor Transportation Infrastructure Fund, \$7.5 million for the Airport Capital Assistance Program and \$3.9 million in Grants to First Nations for the development of the Port of Prince Rupert.

2.1.4 Vote 17 - Forgiveness of Saint John Harbour Bridge Authority's Loans (increase of \$23M)

The increase is a result of the creation of a new Vote for the forgiveness of loans to the Saint John Harbour Bridge Authority. A new vote, along with specific wording, was required in order to allow for the debt forgiveness.

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2.1.5 Other Statutory Payments (increase of \$13M)

The variance is related to an increase in planned payments required for the capital portion of the statutory payment to the St. Lawrence Seaway Management Corporation of \$13 million reflecting significantly increased anticipated costs associated with maintaining the federally owned infrastructure.

The variance in year to date expenditures of \$17 million for 2011-2012 when compared to the previous year's year to date expenditures is explained by an increase in the statutory payment to the St. Lawrence Seaway Management Corporation.

2.2 Statement of Departmental Budgetary Expenditures by Standard Object

Transport Canada's total planned expenditures for 2011-2012 have decreased by approximately \$254 million when compared to 2010-2011. Overall, total expenditures for the third quarter of 2011-2012 approximate the same percentage of expenditures (in relation to planned expenditures) when comparing to 2010-2011 (19% and 16% respectively).

There was an increase of approximately \$15.7 million in the third quarter related to **Personnel** costs when comparing expenditures of the previous year. The variance is largely attributed to an increase of \$20 million in severance pay cash-outs to staff.

With respect to 2011-2012 year to date expenditures, the increase of \$27.5 million, compared to the previous year's year to date expenditures, primarily results from the same increase in relation to the severance pay cash-out following the signing of a new collective agreement in June 2011 with Public Service Alliance of Canada.

Professional and special services in the third quarter of 2011-2012 decreased by \$6.5 million, when compared to the same quarter of the previous year. The difference is largely due to a reduction of \$4.0 million in engineering and architectural services expenditures and a reduction of \$1.6 million in scientific and research services expenditures.

Year to date expenditures relating to the **Acquisition of land, buildings and works** decreased by approximately \$6.3 million when compared to the year to date of the previous year. The decrease is largely attributed to the completion of the Motor Vehicle Test Centre project (\$7.7 million).

Acquisitions of machinery and equipment decreased by \$6.5 million when comparing year to date expenditures of the current year to the previous year. The decrease is attributable to reduced spending on a variety of capital projects including reductions for corporate software licenses (\$1.7 million), vehicles (\$1.4 million) and office furniture (\$1.2 million)

Transfer payments increased by approximately \$35.3 million for the third quarter when compared to the same quarter of the previous year. The variance is largely attributable to increased spending of \$24.7 million on the Asia Pacific Gateway and Corridor Transportation Infrastructure Fund, \$7.5 million for the Airport

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Capital Assistance Program and \$3.9 million in Grants to First Nations for the development of the Port of Prince Rupert.

Expenditures for the **Forgiveness of loans** for **Saint John Harbour Bridge Authority** have increased by \$22.6 million over last year when comparing the year to date expenditures for the current year to the previous year. This specific expenditure of 2011-2012 represents the amount recorded in 2010-2011 Public Accounts as a non-interest bearing loan to the Saint John Harbour Bridge Authority that was conditionally forgiven during the second quarter.

Payments regarding **Other subsidies and payments** increased by approximately \$19.6 million when comparing year to date 2011-2012 to the previous year. The difference is largely due to increases in the statutory payment to the St. Lawrence Seaway Management Corporation of \$17 million reflecting significantly increased anticipated costs associated with maintaining the federally owned infrastructure and in payments to resolve multiple cases of damage and other claims against the Crown.

3. Risks and Uncertainties

Transport Canada's Report on Plans and Priorities (RPP) identifies the current risk environment and the department's key risk areas to the achievement of its strategic outcomes. Within this context, specific financial risks relative to the third quarter include the following:

Budget 2010 announced that the operating budgets of departments would be frozen at their 2010-2011 levels for fiscal years 2011-2012 and 2012-2013. There is a risk that Transport Canada's capacity to address emerging financial pressures will decrease as a result of these cost containment measures. Transport Canada has implemented strategies to manage the operating budget freeze within the department, including expenditure restraint in discretionary spending and re-allocation of planned spending from lower to higher priorities.

On August 4, 2011 the Government of Canada announced the creation of a new entity called Shared Services Canada (SSC). This new organization has been established with the prime objective to consolidate and streamline the delivery of email, data centre and network services across the government. Over forty departments and agencies are affected by this initiative, including Transport Canada. There is a risk that the transition period can create uncertainty. Since November 15, 2011, Transport Canada is managing expenditures in the name of Shared Services Canada. Financial information can be found in food notes, beneath the Statement of Authorities tables.

Transport Canada is working with Shared Services Canada to carefully manage the transition and ensure an orderly transfer of resources and activities so that services continue to be reliable and responsive to client needs.

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

Effective November 15, 2011, Transport Canada, pursuant to [s. 31.1 of the Financial Administration Act](#) and [Order-in-Council P.C. 2011-1297](#), transferred to Shared Services Canada the control and supervision of operational domains related to email, data centers and network services. Approximately 65 Transport Canada employees associated with the delivery of these services, along with the Operating (Personnel and Other Operating Cost) and Capital budget, were transferred to the new Department. During the transition period, Transport Canada continues to reflect financial information related to the transferred services. The financial information can be found in foot notes, beneath the Statement of Authorities tables.

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.

Approved by:

Original signed by

Yaprak Baltacıoğlu,
Deputy Minister
Ottawa, Canada

Date: February 20th, 2012

Original signed by

André Morency,
Chief Financial Officer
Ottawa, Canada

Date: February 16th, 2012

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Statement of Authorities (unaudited)

Authorities (in thousands of dollars)	Fiscal year 2011-2012			Fiscal year 2010-2011		
	Total available for use for the year ending March 31, 2012 *	Used during the quarter ended December 31st, 2011	Year-to-date (YTD) used at quarter-end	Total available for use for the year ended March 31, 2011 *	Used during the quarter ended December 31st, 2010	Year-to-date (YTD) used at quarter-end
Vote 1 - Net Operating expenditures ¹	622,924	155,425	421,297	664,389	160,613	421,952
Vote 5 - Capital expenditures ²	99,493	20,109	39,470	225,388	23,550	39,524
Vote 10 - Grants and contributions	722,297	91,786	125,300	850,177	56,507	115,688
Vote 17 - Forgiveness of Saint John Harbour Bridge Authority's Loans	22,646	-	22,646	-	-	-
Budgetary statutory authorities						
Employee Benefit Plan	74,380	18,595	55,785	69,558	11,593	46,372
Grants and Contributions	62,275	-	59,602	61,071	-	57,721
Other Statutory Payments	79,674	38,570	82,462	66,881	31,611	65,542
Total Budgetary authorities	1,683,689	324,485	806,562	1,937,464	283,874	746,799
Non-budgetary authorities	-	-	-	-	-	-
Total authorities	1,683,689	324,485	806,562	1,937,464	283,874	746,799

*Includes only Authorities available for use and granted by Parliament at quarter-end.

1 Pursuant to s. 31.1 of the *Financial Administration Act* and Order-in-Council P.C.2011-1297 effective November 15, 2011, \$7.746 million is deemed to have been appropriated to Shared Services Canada (vote Net Operating expenditures), which results in a reduction for the same amount in Transport Canada's , Vote 1, *Appropriation Act No.1, 2011-2012*. To date, \$739,689 has been incurred on behalf of Shared Services Canada by Transport Canada against Shared Services Canada, vote Net Operating expenditures.

2 Pursuant to s. 31.1 of the *Financial Administration Act* and Order-in-Council P.C.2011-1297 effective November 15, 2011, \$5.761 million is deemed to have been appropriated to Shared Services Canada (vote Capital Expenditures), which results in a reduction for the same amount in Transport Canada's , Vote 5, *Appropriation Act No.1, 2011-2012*. To date, \$48,365 has been incurred on behalf of Shared Services Canada by Transport Canada against Shared Services Canada, vote Capital expenditures.

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Departmental Budgetary Expenditures by Standard Object (unaudited)

Expense category (In thousands of dollars)	Fiscal year 2011-2012			Fiscal year 2010-2011		
	Planned expenditures for the year ending March 31, 2012	Expended during the quarter ended December 31st, 2011	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2011	Expended during the quarter ended December 31st, 2010	Year to date used at quarter-end
Expenditures:						
Personnel	518,519	138,888	406,033	521,306	123,222	378,560
Transportation and communications	43,389	10,937	25,961	52,300	12,816	30,285
Information	4,712	651	1,610	7,482	1,267	2,740
Professional and special services	169,289	37,156	81,684	185,857	43,632	85,265
Rentals	4,965	2,353	5,875	5,902	1,160	3,460
Repair and maintenance	20,930	4,272	7,919	33,554	3,799	8,903
Utilities, materials and supplies	18,334	5,267	13,902	21,898	4,780	13,150
Acquisition of land, buildings and works	78,137	11,923	15,866	181,462	13,780	22,199
Acquisition of machinery and equipment	21,358	4,366	9,923	43,926	7,989	16,407
Transfer payments	784,572	91,786	184,903	911,248	56,507	173,409
Forgiveness of Loans (St-John Harbour Bridge Authority)	22,646	-	22,646	-	-	-
Other subsidies and payments	79,544	40,979	91,382	54,117	36,185	71,781
Total gross budgetary expenditures	1,766,395	348,578	867,704	2,019,052	305,137	806,159
Less Revenues netted against expenditures:						
Sale of Services	(82,706)	(23,436)	(59,217)	(81,588)	(20,694)	(57,560)
Other Revenue	-	(657)	(1,925)	-	(569)	(1,524)
Research & Development	-	-	-	-	-	(276)
Total Revenues netted against expenditures:	(82,706)	(24,093)	(61,142)	(81,588)	(21,263)	(59,360)
Total net budgetary expenditures	1,683,689	324,485	806,562	1,937,464	283,874	746,799