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

For the Quarter ended June 30, 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 and Supplementary Estimates.

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 (A) 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.

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

2.1 Statement of Authorities

This 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 2011-12 decreased by approximately $322 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	(68)	4	(64)
Vote 5 – Capital Expenditures	(126)	-	(126)
Vote 10 – Grants and Contributions	(171)	-	(171)
Employee Benefit Plan	5	-	5
Other Statutory Payments	17	-	17
Payments to Transportation's Crown Corporations	69	-	69
Payments to Other Crown Corporations (linked to the same portfolio)	(52)		(52)
Total Variance	**(326)**	**4**	**(322)**

2.1.1 Vote 1 –Net Operating expenditures (decrease of $64M)

The variance is primarily a result of decreased planned spending on a number of initiatives including the remediation and assessment of projects to be carried out under the Federal Contaminated Sites Action Plan ($62.1 million), the sunsetting of the ecoTransport Strategy Initiative Program ($8.0 million) and decreased planned spending for the 2008 Strategic Review Reduction ($5.1 million). These reductions are offset by new funding for items such as the Air Cargo Security Program of $13.6 million.

Total authorities used to date have increased by $2.4 million when compared to the first quarter of the current and previous year. The increase in expenditures is primarily a result of a decrease in respendable revenue in Aviation Safety ($1.7 million), resulting in increased expenditures over the same quarter for 2010-11.

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 Crossing Major Crown Project ($111.4 million) and a decrease in planned spending for the Modernizing of Federal Laboratories as announced in Budget 2009 ($9.7 million).

Expenditures for the first quarter have decreased by approximately $4.0 million when comparing the previous year to the current year. The decrease is primarily related to the completion of two projects: Laboratory Maintenance – Motor Vehicle Test Centre ($2.5 million) and Cap-aux-Meules – Réparation Côt est Brise-Lames ($1.7 million).

2.1.3 Vote 10 – Grants and Contributions (decrease of $171M)

The variance is largely due to a decrease in planned spending regarding the Gateways and Border Crossing Fund ($263.1 million), along with a decrease in the Port Divestiture Fund ($20.4 million), offset by increases in planned spending for the Asia Pacific Gateway and Corridor Transportation Infrastructure Fund of $95.7 million and increases in the Airports Capital Assistance Program for $22.0 million.

There was an increase in expenditures of $2.6 million for the first quarter of 2011-12 when compared to 2010-11. This is mainly attributable to additional spending for the Ferry Services Contribution Program ($2.2 million)

2.1.4 Other Statutory Payments (increase of $17M)

The variance is related to increased payments required to the capital portion of the statutory payment of the St. Lawrence Seaway Management Corporation ($17.0 million) reflecting significantly increased costs associated with maintaining the federally owned infrastructure.

The increased expenditure of $12.0 million for the first quarter of 2011-12 when compared to the same quarter of 2010-11 is explained by the same reason.

2.1.5 Payments to Transportation's Crown Corporation (increase of $69M) & Payment to Other Crown Corporations (decrease of $52M)

Transportation's Corporations

The variance is largely due to an increase in planned spending on a number of programs including: 1) the Jacques Cartier and Champlain Bridges Incorporated for $38.4 million related to urgent safety repairs, asset preparation and preparatory work on asset replacement including the Champlain Bridge Corridor and other structures in Greater Montreal and increased funding for the redecking of the Honoré Mercier Bridge. 2) Marine Atlantic Inc. for $83.1 million to implement phase II of the revitalization strategy less the allocation of additional funding to charter a vessel to replace the *MV Atlantic Freighter*. 3) As announced in Budget 2011, $22.6 million owed by St. John Harbour Bridge Authority to Her Majesty ($22.6 million).

These increases are offset by a net decrease for VIA Rail Canada Inc. ($44.2 million) in funding as a result of the sunsetting of major equipment maintenance, overhaul, and certain capital projects introduced in Budget

2007 and Budget 2009, as well as a reduction for the Old Port of Montreal Corporation ($28.1 million) which was transferred last year from Transport Canada to the Privy Council Office.

There has been no material change in year to date expenditures over the same period of last year.

Other Crown Corporations
The authorities for Crown Corporations have decreased by $52.0 million, primarily as a result of decreased planned spending in Infrastructure Stimulus Funding for the National Capital Commission for $45.6 million over last year 2010-11.

Year to date expenditures for the Crown Corporations have increased over the same quarter last year ($6.2 million) as a result of a timing difference in payments by the National Capital Commission.

2.2 Statement of Departmental Budgetary Expenditures by Standard Object

Transport Canada's total planned expenditures for the current fiscal year have decreased by approximately $322 million when compared to the previous fiscal year. Overall, total expenditures for the first quarter approximate the same percentage of expenditures in relation to planned expenditures when comparing the current to previous year, 21% and 18% respectively.

There was a difference of approximately $19 million in the first quarter regarding ***personnel*** costs when comparing expenditures of the current to previous year. The variance is largely attributed to a timing difference which saw the recognition of Employee Benefit Plan payments of $18.6 million incurred earlier this fiscal year over last year.

Expenditures relating to the ***acquisition of land, buildings and works*** decreased by approximately ($4 million) during the first quarter when compared to the previous year's quarter. The decrease is attributed to the completion of two projects: Laboratory Maintenance – Motor Vehicle Test Centre ($2.5 million) and Cap-aux-Meules – Réparation des Brise-Lames ($1.7 million).

Transfer payments increased by approximately $4 million for the first quarter when compared to the same quarter of the previous year. The increase is mainly related to an increase in Statutory payments for the Northumberland Crossing Subsidy for $1.4 million and an increase in the Ferry Services Contribution Program of $2.2 million.

Payments regarding ***other subsidies and payments*** increased by approximately $24.3 million when comparing the current quarter to the previous year's quarter. The variance is explained by increased transfer payments to Marine Atlantic for $17.4 million, St. Lawrence Seaway Management Corporation for $12.0 million, combined with a decrease in payments to the Old Port of Montreal Corporation ($7.0 million) which has been transferred last year from Transport Canada to the Privy Council Office.

Revenues netted against expenditures decreased by approximately ($2.0 million) when comparing the quarter expenditures of the current to the previous year. Respendable revenue decreased in 2011-12 in Aviation Safety ($1.7 million) over the same period of the previous year.

3. Risks and Uncertainties

Budget 2010 announced that the operating budgets of departments would be frozen at their 2010-11 levels for the fiscal years 2011-12 and 2012-13. Transport Canada has implemented strategies to manage the operating budget freeze within the department. These strategies include expenditure restraint in discretionary spending and re-allocating planned spending from lower to higher priorities.

Transport Canada is responsible for the Government of Canada's transportation policies and programs. While not directly responsible for all aspects or modes of transportation, the Department plays a leadership role to ensure that all parts of the transportation system work together effectively.

The transportation system is a complex structure that includes multiple jurisdictions of government interacting with private-sector stakeholders and consumers. In years ahead, emerging global pressures such as global restructuring, demographic shifts, natural resources scarcity, financial constraints, environmental pressures, ever present security threats and general uncertainty and complexity will present a number of new challenges for Canada's transportation system.

The department has developed a Corporate Risk profile to manage its strategic risks which include finding the appropriate balance between the requirements of the national system and expectations of provincial and municipal jurisdictions and private sector entities; tensions in third party labour-employer relationships that impact the transportation system; tensions between users and providers of transportations services; increasingly limited public funds; aging infrastructure; constrained uptake of transportation innovation; and evolving international direction related to environmental issues and climate change.

Within this context, the key financial risk and uncertainties that could impact the department's financial plan for the current year are summarized below.

Risk	Key Mitigation
• Lack of clarity in roles and responsibilities in protocols and communication channels	• Governance structures that establish clear lines of accountability, roles and responsibilities
• Inability of information management and information technology systems to meet evolving management information needs	• Incorporation of evolving information needs into strategic investment planning for information technology infrastructure
• Inability to deliver on core responsibilities, given resource constraints and increased reporting burden.	• Review of the efficiency and effectiveness of departmental operations and programs.

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

There have been no significant changes in relation to operations, personnel and programs over the last year.

Approved by:

___________________________	___________________________
Yaprak Baltacioğlu,	André Morency,
Deputy Minister	Chief Financial Officer
Ottawa, Canada	Ottawa, Canada
Date	Date

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Statement of Authorities (unaudited)

	Fiscal year 2011-2012				Fiscal year 2010-2011		
(in thousands of dollars)	Total available for use for the year ending March 31, 2012 *	Used during the quarter ended June 30, 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 June 30, 2010	Year-to-date (YTD) used at quarter-end
Vote 1 - Net Operating expenditures	549,895	125,419	125,419		613,757	122,960	122,960
Vote 5 - Capital expenditures	95,157	2,328	2,328		221,127	6,406	6,406
Vote 10 - Grants and contributions	669,077	9,971	9,971		840,113	7,323	7,323
Budgetary statutory authorities							
Employee Benefit Plan	74,380	18,595	18,595		69,558	-	-
Grants and Contributions	62,275	59,075	59,075		61,071	57,721	57,721
Other Statutory Payments	79,674	34,318	34,318		62,881	22,334	22,334
Non-Statutory Expenditures							
Payments to Transportation’s Crown Corporations	1,507,718	372,708	372,708		1,438,588	371,929	371,929
Payments other Crown Corporations (linked to the same portfolio)	132,572	41,176	41,176		185,221	34,893	34,893
Total Budgetary authorities	**3,170,748**	**663,590**	**663,590**		**3,492,316**	**623,566**	**623,566**
Non-budgetary authorities	-	-	-		-	-	-
Total authorities	**3,170,748**	**663,590**	**663,590**		**3,492,316**	**623,566**	**623,566**

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

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Departmental Budgetary Expenditures by Standard Object (unaudited)

	Fiscal year 2011-2012			Fiscal year 2010-2011		
(In thousands of dollars)	Planned expenditures for the year ending March 31, 2012	Expended during the quarter ended June 30th, 2011	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2011	Expended during the quarter ended June 30th, 2010	Year to date used at quarter-end
Expenditures:						
Personnel	487,683	127,568	127,568	479,472	108,802	108,802
Transportation and communications	43,529	6,875	6,875	48,994	8,492	8,492
Information	4,715	299	299	7,194	514	514
Professional and special services	128,241	11,353	11,353	170,600	12,662	12,662
Rentals	4,943	778	778	5,699	925	925
Repair and maintenance	19,737	693	693	32,484	2,280	2,280
Utilities, materials and supplies	18,213	4,072	4,072	20,527	3,827	3,827
Acquisition of land, buildings and works	76,250	131	131	177,201	4,237	4,237
Acquisition of machinery and equipment	18,908	1,932	1,932	43,926	2,280	2,280
Transfer payments	731,352	69,046	69,046	901,184	65,044	65,044
Other subsidies and payments	1,719,883	453,348	453,348	1,686,623	429,043	429,043
Total gross budgetary expenditures	**3,253,454**	**676,095**	**676,095**	**3,573,904**	**638,105**	**638,105**
Less Revenues netted against expenditures:						
Sale of Services	(82,706)	(11,656)	(11,656)	(81,588)	(13,720)	(13,720)
Other Revenue		(849)	(849)		(543)	(543)
Research & Development		0	0		(276)	(276)
Total Revenues netted against expenditures:	**(82,706)**	**(12,505)**	**(12,505)**	**(81,588)**	**(14,539)**	**(14,539)**
Total net budgetary expenditures	**3,170,748**	**663,590**	**663,590**	**3,492,316**	**623,566**	**623,566**