

Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended September 30th, 2017

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended September 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Standards, GC 4400 Departmental Quarterly Financial Report](#), which as of April 1, 2017 has replaced the now-rescinded [Treasury Board Accounting Standard \(TBAS\) 1.3 - Departmental and Agency Quarterly Financial Report](#).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 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 decreased by approximately \$16 million, from \$1,420 million as of September 30, 2016 to \$1,404 million as of September 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 – Net operating expenditures	661,843	573,878	87,965
Vote 5 – Capital expenditures	160,353	149,908	10,445
Vote 10 - Grants and contributions – Gateways and corridors	113,975	258,354	(144,379)
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	268,937	(33,773)
Total Authorities	1,403,521	1,420,019	(16,498)

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 September 30, 2017 are explained below.

2.1.1 Vote 1 – Operating expenditures (increase of \$88M)

Planned operating authorities increased by \$88 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 (increase of \$10M)

Capital expenditures authorities increased by \$10 million from 2016-2017 to 2017-2018, largely explained by the following factors:

- An increase in planned spending of:
 - \$14 million due to a higher Capital Budget Carry Forward (CBCF) when compared to the prior year.
 - \$7 million for the divestiture phase of the Port Asset Transfer Program.
- Offset by a 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.

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

Grants and contributions (G&C) 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 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:
 - \$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 attributable to 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 second quarter of 2017-2018 represent 33% of the annual planned expenditures, compared to 32% in 2016-2017.

Historically, most spending on high-dollar value, major infrastructure grants and contributions 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 two quarters once the mid-year internal budget reallocations are completed.

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The major year-to-year variances as at September 30, 2017 are as follows:

Planned Expenditures

- The 2017-2018 increases in planned expenditures for the following Standard Objects when compared to 2016-2017 are mainly as a result of the increases in funding for the Ocean Protection Plan, the Safety of Railways and Transportation of Dangerous Goods, the Port Asset Transfer Program. The major increases are the following:
 - **Personnel:** \$38 million
 - **Transportation and communications:** \$18 million
 - **Rentals:** \$6 million
 - **Repair and Maintenance:** \$9 million
 - **Utilities, materials and supplies:** \$7 million
 - **Acquisitions of machinery and equipment:** \$21 million
- **Professional and special services**

The planned expenditures related to *Professional and special services* for 2017-2018 decreased by approximately \$9 million compared to the 2016-2017 planned expenditures. The decrease is a result of a reduction in planned spending based on previous years' actual expenditures.
- **Acquisition of land, building and works**

The planned expenditures related to the *Acquisition of land, building and works* for 2017-2018 decreased by \$5 million is mainly as a result of the decrease in funding for the Ferry Services Program offset by an increase in the Capital Budget Carry Forward which is allocated to various projects.
- **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 causes of the variances are explained in section 2.1.4.
- **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 the Aircraft Services Directorate at Transport Canada 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

- The year-to-date expenditures related to *Personnel* at September 30, 2017 increased by approximately \$35 million compared to the 2016-2017. This increase is attributable to retroactive salaries and wages paid to employees for earnings related to previous and current fiscal years following the ratification and signing of new collective agreements.
- The year-to-date expenditures related to *Acquisition of land, buildings and works* at September 30, 2017 increased by approximately \$7 million when compared to the 2016-2017. This increase is mainly attributed to expenditures related to

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construction in Wabush Newfoundland and Labrador of a new parallel taxiway and apron expansion, a redevelopment of the westside parking and air terminal building access road and a construction of new water pressure booster station & reservoir.

- The year-to-date expenditures related to *Transfer payments* at September 30, 2017 decreased by approximately \$15 million when compared to the 2016-2017. This decrease is largely attributed to contributions through the Port Asset Transfer Program as a result of the transfer of the Cornwall Port Facility to the City of Cornwall completed in 2016-17, a reduction in the Ferry Services Contribution Program with Northumberland Ferries Ltd and the C.T.M.A. Ferry, and a decrease in the operating and capital assistance payments related to Regional Remote Rail – Tshieutin Railway and Port of Trois-Rivieres Multipurpose Terminal.
- The year-to-date expenditures related to *Other subsidies and payments* at September 30, 2017 decreased by approximately \$20 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.

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 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 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 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 impact 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.

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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;
- Strengthening the economic competitiveness of Canada's aerospace sector.

Additional details on these initiatives are presented in the [2016-17 Departmental Results Report](#).

Approved by:

Original signed by

Michael Keenan,
Deputy Minister
Ottawa, Canada

November 27, 2017

Original signed by

André Lapointe,
Chief Financial Officer
Ottawa, Canada

November 21, 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 September 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 September 30, 2016	Year to date used at quarter-end
Vote 1 - Operating expenditures	730,825	177,752	302,461	652,307	132,545	258,972
Vote 1 - Revenue credited to the vote	(68,982)	(20,158)	(30,670)	(78,429)	(20,083)	(32,242)
Vote 1 – Net operating expenditures	661,843	157,594	271,791	573,878	112,462	226,730
Vote 5 - Capital expenditures	160,353	18,073	21,981	149,908	11,135	15,358
Vote 10 - Grants and contributions – Gateways and corridors	113,975	9,616	11,692	258,354	8,632	14,057
Vote 15 - Grants and contributions – Transportation infrastructure	185,062	15,833	25,067	122,252	14,364	39,022
Vote 20 - Grants and contributions – Other	47,124	1,700	1,555	46,690	1,306	1,309
Budgetary statutory authorities						
Contributions to employee benefit plans	73,114	34,404	34,404	73,010	35,208	35,208
Minister of Transport – Salary and motor car allowance	84	21	42	83	26	32
Payments to the Canadian National Railway Company – Victoria Bridge, Montreal	3,300	639	1,579	3,300	860	1,576
Northumberland Strait Crossing Subsidy Payment	65,845	-	64,942	65,344	-	63,588
Refunds of amounts credited to revenues in previous years	-	-	-	-	-	1
Payments in respect of St. Lawrence Seaway Agreements	92,821	3,577	28,577	127,200	8,837	50,839
Total Budgetary statutory authorities	235,164	38,641	129,544	268,937	44,931	151,244
Total budgetary authorities	1,403,521	241,457	461,630	1,420,019	192,830	447,720

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 September 30, 2017	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2017	Expended during the quarter ended September 30, 2016	Year to date used at quarter-end
Expenditures:						
Personnel	533,570	171,671	280,483	495,458	139,573	245,594
Transportation and communications	41,139	6,183	10,946	22,669	3,631	7,038
Information	3,902	611	792	3,437	391	623
Professional and special services	172,687	24,825	32,754	181,733	19,574	34,266
Rentals	13,108	3,335	4,275	6,920	3,476	4,591
Repair and maintenance	15,733	1,490	2,271	6,729	640	2,012
Utilities, materials and supplies	20,664	3,944	7,018	13,675	2,927	5,106
Acquisition of land, buildings and works	100,129	11,544	11,576	104,970	4,003	4,394
Acquisition of machinery and equipment	52,788	4,046	5,953	32,230	3,420	5,496
Transfer payments	415,306	27,788	104,835	495,940	25,162	119,552
Other subsidies and payments	103,477	6,178	31,397	134,687	10,116	51,290
Total gross budgetary expenditures	1,472,503	261,615	492,300	1,498,448	212,913	479,962
Less Revenues netted against expenditures:						
Vote-netted revenues	(68,982)	(20,158)	(30,670)	(78,429)	(20,083)	(32,242)
Total Revenues netted against expenditures:	(68,982)	(20,158)	(30,670)	(78,429)	(20,083)	(32,242)
Total net budgetary expenditures	1,403,521	241,457	461,630	1,420,019	192,830	447,720