

Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended December 31, 2012

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended December 31, 2012

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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 [Treasury Board Accounting Standard 1.3](#). The quarterly report should be read in conjunction with the Main Estimates and Supplementary Estimates (A) and (B), as well as *Canada's Economic Action Plan 2012* (Budget 2012).

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 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) and (B) for the 2012-13 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 monies 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.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-13, frozen allotments will be established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent Main Estimates tabled in Parliament.

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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 \$451 million (or 27%), from \$1,670.2 million as of December 31, 2011 to \$2,121.2 million as of December 31, 2012, as summarized below:

Description of activity (in million of dollars)	Expenditures	Revenues	Net Expenditures
Vote 1 – Operating expenditures	(14)	(1)	(15)
Vote 5 – Capital expenditures	17	-	17
Vote 10 – Grants and contributions	467	-	467
Vote 17 – Forgiveness of Saint John Harbour Bridge Authority's loans	(23)	-	(23)
Budgetary statutory authorities			
Employee benefit plan	(1)	-	(1)
Grants and contributions	2	-	2
Other statutory payments	4	-	4
Total increase in authorities	452	(1)	451

Note: Totals may not add and 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 variances for the quarter ended December 31, 2012 are explained below.

2.1.1 Vote 1 – Net operating expenditures (decrease of \$15M)

The Net operating expenditures authorities decreased by \$15 million from 2011-12 to 2012-13, and the variance is primarily a net result of the following factors:

- Increases in planned spending of:
 - \$10 million on the assessment, management and remediation of projects to be carried out under the Federal Contaminated Sites Action Plan; and
 - \$19 million in funding for the Next Generation of Clean Transportation Initiatives.
- Offset by decreases in planned spending of:
 - \$15 million resulting from the transfer to Shared Services Canada;
 - \$14.9 million from sunsetting programs such as the Health of the Oceans and the Port Divestiture Fund;
 - \$2.3 million in transfers to other government departments;
 - \$3.1 million in re-profiling for the Divestiture of Mirabel Airport Reserve Lands;
 - \$5.3 million in Operating Budget Carry Forward; and
 - \$3.4 million in various other reductions.

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The actual Operating expenditures for the year-to-date of 2012-13 decreased by \$65 million when compared to the year-to-date of 2011-12. This is primarily explained by decreases of \$27.1 million in salary and wages, \$2.2 million in training and educational services, \$6.6 million in travel, \$16.9 million in professional services, \$4.7 million in special services and fees, \$3.9 million in telecommunication services, \$2.6 million in informatics services and various other minor reductions in expenditures totaling \$1 million.

2.1.2 Vote 5 – Capital expenditures (increase of \$17M)

The Capital expenditures authorities increased by \$17 million from 2011-12 to 2012-13. The variance is primarily explained by increases in planned spending of \$11.7 million for the Ferry Services Contribution Program, \$8.7 million for the Detroit River International Crossing Project, \$2.3 million for Capital Budget Carry Forward, and \$2.0 million for various minor projects offset by a \$7.4 million transfer from Capital to Grants and Contributions for the Port Divestiture Fund.

The actual Capital expenditures for the year-to-date 2012-13 decreased by \$10 million when compared to the 2011-12 year-to-date is primarily due to differences in the timing of payments for various projects.

2.1.3 Vote 10 – Grants and contributions (increase of \$466.8M)

The Grants and contributions authorities increased by \$466.8 million from 2011-12 to 2012-13, and the variance is largely due to the following factors:

- Increases in planned spending of:
 - \$627.1 million regarding the Gateways and Border Crossings Fund,
 - \$2.9 million in miscellaneous increases.
- Offset by decreases in planned spending of:
 - \$134.5 million for the Asia Pacific Gateway and Corridor Transportation Infrastructure Fund,
 - \$12.5 million for the Airports Capital Assistance Program, and
 - \$16.2 million for the Grant to the Port of Prince Rupert.

The actual Grants and contributions year-to-date expenditures at December 31, 2012 increased by \$137.7 million when compared to the year-to-date at December 31, 2011 primarily due to an increase in expenditures for the Gateway and Border Crossings Fund and the Asia-Pacific Gateway and Corridor Transportation Infrastructure Fund.

2.1.4 Vote 17 – Forgiveness of Saint John Harbour Bridge Authority's loans (decrease of \$22.6M)

There is no planned amount and expenditures for 2012-13. The 2011-12 Vote 17 of \$22.6 million to forgive loans relating to the Saint John Harbour Bridge Authority is not recurrent.

2.1.5 Budgetary statutory authorities (increase of \$3.8M for Other statutory payments)

The Other statutory payments authorities increased by \$3.8 million from 2011-12 to 2012-13. The variance is explained by an increase in the planned annual payments required for the capital portion of the statutory payment to the St. Lawrence Seaway Management Corporation of \$3.8 million reflecting significantly increased anticipated costs associated with maintaining the federally owned infrastructure.

As at December 31, the Other statutory payments year-to-date actual expenditures for 2012-13 decreased by \$13.6 million when compared to the year-to-date for 2011-12. The variance is explained mostly by differences in the timing of payments resulting in a decrease in the statutory payment to the St. Lawrence Seaway Management Corporation for the first three quarters.

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2.2 Statement of Departmental Budgetary Expenditures by Standard Object

Transport Canada's annual planned expenditures for 2012-13 have increased by approximately \$451 million when compared to 2011-12. Of the annual planned expenditures, 17% was expended in the third quarter of 2012-13, compared to 19% for the same quarter of 2011-12. Overall, year-to-date expenditures for 2012-13 represent 39% of annual planned expenditures, compared to 48% in 2011-12.

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. The major year-to-year variances for the year-to-date as at December 31, 2012 are found in the following categories:

- **Personnel**

The *Personnel* year-to-date expenditures as at December 31, 2012 decreased by approximately \$31 million when compared to the previous year-to-date expenditures for 2011-12. The variance is largely attributed to a reduction of \$17.6 million in severance pay payments and reduced spending as a result of austerity measures to ensure Transport Canada meets its Budget 2012 savings.

- **Transportation and communications**

The *Transportation and communications* year-to-date expenditures at December 31, 2012 decreased by \$11.3 million compared to year-to-date at quarter end of 2011-12. The decrease is mainly due to the transfer of telecommunications services to Shared Services Canada and the reduction of travel expenditures related to meetings, workshops and Conferences.

- **Professional and special services**

The *Professional and special services* year-to-date expenditures at December 31, 2012 decreased by \$27.1 million when compared to year-to-date at quarter end of 2011-12. The difference is largely due to a reduction in spending for engineering and architectural services, management consulting and temporary help services.

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

The *Acquisitions of land, buildings and works* year-to-date expenditures at December 31, 2012 increased by \$3.7 million over the year-to-date expenditures at quarter end of 2011-12 as a result of an increase of \$8.8 million for the rehabilitation of airside and groundside pavement at Port Hardy Airport, offset by reductions in the Detroit River International Crossing Capital Project for \$2.4 million, a reduction in the reconfiguration of airport runways and construction of a new airport terminal at Waskaganish Airport and the Pre-Boarding Lounge Upgrade and the Roof Restoration at the Wabush Airport for a total of \$2.5 million and various other minor reductions in expenditures totaling \$0.2 million.

- **Transfer payments**

The *Transfer payments* (including statutory amounts) year-to-date expenditures at December 31, 2012 increased by \$139.2 million compared to year-to-date at quarter end of 2011-12. This is primarily due to an increase in expenditures for the Gateway and Border Crossings Fund and the Asia-Pacific Gateway and Corridor Transportation Infrastructure Fund.

Note that the *Transfer payments* planned expenditures for 2012-13 increased by approximately \$468.4 million when compared to the planned expenditures for 2011-12. The variance is largely due to increases in planned spending of \$627.1 million regarding the Gateways and Border Crossings Fund offset by decreases in planned spending of \$134.5 million for the Asia Pacific Gateway and Corridor Transportation Infrastructure Fund, of \$12.5 million for the Airports Capital Assistance Program and of \$16.6 million for the Grants to the Port of Prince Rupert

- **Forgiveness of loans (St-John Harbour Bridge Authority)**

Year-to-date expenditures for the *Forgiveness of loans* for the Saint John Harbour Bridge Authority decreased by \$22.6 million in 2012-13 when compared to the previous year. The 2011-12 expenditure represents the amount of a non-interest bearing loan to the Saint John Harbour Bridge Authority that was conditionally forgiven during the second quarter of last year and is not recurrent.

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- **Other subsidies and payments**

Year-to-date expenditures regarding *Other subsidies and payments* decreased by approximately \$18.5 million in 2012-13 when compared to 2011-12. The difference is largely due to a decrease in the statutory payment to the St. Lawrence Seaway Management Corporation of \$12.8 million due to differences in the timing of payments for the first three quarters and finally a \$4.3 million decrease in payments to settle multiple cases of damage and other claims against the Crown.

3. Risks and Uncertainties

Transport Canada's Report on Plans and Priorities 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 2010-11 levels for fiscal years 2011-12 and 2012-13. 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.

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 third quarter, except as described in sections 2.1 and 5.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and modernize and reduce the back office.

Transport Canada will achieve Budget 2012 savings of \$62.1 million by fiscal year 2014-15 through efficiency measures and program reductions that align resources to its core mandate, scaling back where the need is reduced; transforming how it works internally; and by consolidating and streamlining. With these changes Transport Canada will implement more efficient and lean administrative processes and focus on core federal roles and priorities.

In the first year of implementation, Transport Canada will achieve savings of approximately \$37 million. Savings will increase to \$47 million in 2013-14 and will result in ongoing savings of \$62.1 million by 2014-15. These savings have yet to be incorporated into the Department's authorities.

Specifically, savings will be achieved through:

Overall efficiencies, such as:

- Reducing procurement spending in targeted professional services areas,
- Reducing overall travel expenses that are not essential to core business.

Back office streamlining, such as:

- Finding savings in all groups through greater efficiencies, for example by streamlining ministerial correspondence, centralizing web publishing and better aligning work to departmental priorities,
- Reducing administrative overhead, for example by streamlining program management activities.

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Program changes, such as:

- Realigning and streamlining Transport Canada's main research functions (R&D and Economic Analysis) and refocusing R&D activities on core strategic priority areas,
- Integrating the Marine Safety and Marine Security programs by consolidating their management functions,
- Working with other organizations to leverage knowledge and expertise.

Departmental expenditures in the first three quarters of 2012-13 have decreased from the same period for last fiscal year partly as a result of measures announced in Budget 2012. As of the third quarter, all initiatives planned under Budget 2012 are on track for savings to be achieved.

Transport Canada is mitigating financial risks or uncertainties related to these savings by taking measures to: ensure that core safety and security functions are not compromised; minimize the impact on employees and Canadians; focus on long-term benefits; improve internal processes; identify efficiencies; and focus on core functions which are in line with the Department's mandate and strategic outcome structure.

Other measures referenced in Budget 2012 include:

- Renewed spending of \$5 million for Health of the Oceans, \$16.1 million for Regional and Remote Passenger Rail, \$16.3 million for the Port Divestiture Fund, \$3.5 million for Major Projects Management Office, and
- New spending of \$5.2 million for Responsible Energy Development.

Approved by:

Original signed by

Louis Lévesque,
Deputy Minister
Ottawa, Canada

March 1, 2013

Original signed by

André Morency,
Chief Financial Officer
Ottawa, Canada

March 1, 2013

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Statement of Authorities (Unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2012-2013			Fiscal year 2011-2012		
	Total available for use for the year ending March 31, 2013 (1),(2)	Used during the quarter ended December 31, 2012	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2012 (1), (3)	Used during the quarter ended December 31, 2011 (4)	Year-to-date used at quarter-end
Vote 1 – Net operating expenditures	600,134	125,062	355,484	615,178	155,425	421,297
Vote 5 – Capital expenditures	110,801	12,965	29,373	93,732	20,109	39,470
Vote 10 – Grants and contributions	1,189,132	156,332	262,983	722,297	91,786	125,300
Vote 17 – Forgiveness of Saint John Harbour Bridge Authority's loans	-	-	-	22,646	-	22,646
Budgetary statutory authorities						
Employee benefit plan	73,816	18,454	55,362	74,380	18,595	55,785
Grants and contributions	63,830	-	61,111	62,275	-	59,602
Other statutory payments	83,451	43,688	68,864	79,674	38,571	82,463
Total budgetary authorities	2,121,164	356,501	833,177	1,670,182	324,486	806,563
Non-budgetary authorities	-	-	-	-	-	-
Total authorities	2,121,164	356,501	833,177	1,670,182	324,486	806,563

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

(2) Total available for use does not reflect measures announced in Budget 2012.

(3) Pursuant to section 31.1 of the Financial Administration Act and P.C. 2011-1297 effective November 15, 2011, \$7,746,000 related to operating expenditures (Vote 1) and \$5,761,000 related to capital expenditures (Vote 5) is deemed to have been appropriated to Shared Services Canada, which results in a reduction for the same amount in Transport Canada, Votes 1 and 5, Appropriation Act No.1, 2011-2012.

(4) Includes amounts incurred on behalf of Shared Services Canada from the date of transfer of November 15 to December 31, 2011. It is not possible to reasonably estimate the amount of expenditures incurred on behalf of Shared Services Canada.

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Departmental Budgetary Expenditures by Standard Object (Unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2012-2013			Fiscal year 2011-2012		
	Planned expenditures for the year ending March 31, 2013 ⁽¹⁾	Expended during the quarter ended December 31, 2012	Year to date expended at quarter-end	Planned expenditures for the year ending March 31, 2012 ⁽²⁾	Expended during the quarter ended December 31, 2011 ⁽³⁾	Year to date expended at quarter-end
Expenditures:						
Personnel	510,677	123,954	374,639	518,519	138,888	406,033
Transportation and communications	35,376	5,925	14,703	43,389	10,874	26,057
Information	4,452	851	1,600	4,712	651	1,610
Professional and special services	168,404	26,371	54,538	161,543	37,156	81,685
Rentals	4,648	1,679	5,674	4,965	2,353	5,875
Repair and maintenance	19,156	3,125	6,839	20,930	4,223	7,787
Utilities, materials and supplies	15,071	4,052	10,839	18,334	5,267	13,902
Acquisition of land, buildings and works	65,388	9,209	19,539	78,137	11,923	15,866
Acquisition of machinery and equipment	45,413	3,067	8,921	15,597	4,366	9,923
Transfer payments	1,252,962	156,332	324,094	784,572	91,786	184,903
Forgiveness of Saint John Harbour Bridge Authority's loans	-	-	-	22,646	-	22,646
Other subsidies and payments	83,372	44,954	72,931	79,544	40,979	91,382
Total gross budgetary expenditures	2,204,919	379,519	894,317	1,752,888	348,466	867,669
Less revenues netted against expenditures:						
Vote-netted revenues	(83,755)	(23,018)	(61,140)	(82,706)	(23,980)	(61,106)
Total Revenues netted against expenditures:	(83,755)	(23,018)	(61,140)	(82,706)	(23,980)	(61,106)
Total net budgetary expenditures	2,121,164	356,501	833,177	1,670,182	324,486	806,563

⁽¹⁾ Planned expenditures do not reflect measures announced in Budget 2012.

⁽²⁾ Pursuant to section 31.1 of the Financial Administration Act and P.C. 2011-1297 effective November 15, 2011, \$7,746,000 related to operating expenditures (Vote 1) and \$5,761,000 related to capital expenditures (Vote 5) is deemed to have been appropriated to Shared Services Canada, which results in a reduction for the same amount in Transport Canada, Votes 1 and 5, Appropriation Act No.1, 2011-2012.

⁽³⁾ Includes amounts incurred on behalf of Shared Services Canada from the date of transfer of November 15 to December 31, 2011. It is not possible to reasonably estimate the amount of expenditures incurred on behalf of Shared Services Canada.

Certain comparative figures have been reclassified to conform to the current year's presentation.