Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended September 30th, 2014

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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), 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 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 2014-15 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. 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 $192 million (or 13%), from $1,512 million as of September 30, 2013 to $1,704 million as of September 30, 2014, as summarized below:

Changes in Authorities:

Description	(in millions of dollars)
Vote 1 – Operating expenditures	30
Vote 5 – Capital expenditures	(58)
Vote 10 – Grants and contributions	214
Budgetary statutory authorities	6
Total change in authorities	**192**

Note: 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, 2014 are explained below.

2.1.1 Vote 1 – Operating expenditures (increase of $30M)

Planned operating expenditures were to decrease by $15.1 million from 2013-2014 as a result of savings measures announced in Budget 2012. However, these savings were offset in 2014-15 by new funding of $15 million for the implementation of a world class prevention, preparedness and response regime for oil spills from ships to safeguard Canada's marine environment as well as $30 million increase due to timing differences in the recognition of the Operating Budget Carry Forward which occurred during the second quarter in 2014-2015 comparatively to the third quarter in 2013-2014.

2.1.2 Vote 5 – Capital expenditures (decrease of $58M)

Capital expenditures authorities decreased by $58 million from 2013-14 to 2014-15, mostly as a result of funding moved to future years related to land acquisition for the Detroit River International Crossing ($66.4 million decrease) and Budget 2010 funding ending for the Ferry Services Program ($10.8 million decrease). These decreases are offset by timing differences in the recognition of the Capital Budget Carry Forward which occurred during the second quarter in 2014-2015 comparatively to the third quarter in 2013-2014 ($18M).

2.1.3 Vote 10 – Grants and contributions (increase of $214M)

Grants and contributions authorities increased by $214 million from 2013-14 to 2014-15, largely explained by the following factors:

- Increases in planned spending of:
  - $327.3 million for Gateways and Border Crossings Fund, in particular for the Rt. Hon. Herb Gray Parkway project in the Windsor-Essex region of Ontario;
  - $11.2 million for Regional and Remote Passenger Rail Services Contribution Program;
  - $5.2 million for Contributions to Support the Next Generation of Clean Transportation Initiatives.

- Offset by decreases in planned spending of:
  - $91.1 million for the Asia Pacific Gateway and Corridor Transportation Infrastructure Fund;
  - $12.3 million for the Budget 2010 funding reductions for the Ferry Services Contribution Program;
  - $11.0 million for the sun-setting of funding for the Port Divestiture Fund;
  - $10.8 million for the Outaouais Roads Development Agreement.

2.1.4 Budgetary statutory authorities (increase of $6M)

The budgetary statutory authorities increased by $6 million mainly as a result of an increase of $9.2 million in the capital requirements associated with the St. Lawrence Seaway offset by a reduction of $4 million for the Employee Benefits Plan.

2.2 Statement of Departmental Budgetary Expenditures by Standard Object

Transport Canada's annual planned expenditures for 2014-15 have increased by approximately $192 million when compared to 2013-14. Overall, the year-to-date expenditures at the end of the second quarter of 2014-15 represent 28% of the annual planned expenditures, compared to 27% in 2013-14.

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 as at September 30, 2014 are as follows:

- **Personnel**

  The planned expenditures related to ***Personnel*** for 2014-15 decreased by approximately $5.9 million compared to the 2013-14 planned expenditures. The decrease is primarily related to reductions for the Deficit Reduction Action Plan.

  The year-to-date expenditures related to ***Personnel*** at September 30, 2014 increased by approximately $17.4 million when compared to the 2013-14 second quarter year-to-date expenditures. The increase is largely attributed to the timing difference of $15.4 million in severance pay cash-outs to staff that occurred during the second quarter of 2014-15 comparatively to the third and fourth quarter of 2013-14. Severance pay cash-outs are funded by the Treasury Board Secretariat and the corresponding authorities will be added to the Department's authorities prior to year end.

- **Professional and special services**

  The planned expenditures related to ***Professional and special services*** for 2014-15 increased by approximately $25.6 million compared to the 2013-14 planned expenditures, mainly due to an increase in planned spending for the world class marine oil spill prevention initiative and increased planned spending for the Federal Contaminated Sites Action Plan.

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

  The planned expenditures related to ***Acquisitions of land, buildings and works*** for 2014-15 decreased by approximately $30.4 million compared to the 2013-14 planned expenditures. The decrease is a result of funding moved to future years for the Detroit River International Crossing.

  The year-to-date expenditures related to ***Acquisitions of land, buildings and works*** at September 30, 2014 increased by approximately $3.7 million compared to the 2013-14 second quarter year-to-date expenditures. The increase is largely attributed to increase in expenditures of $8.9 million for roads, highways and airport runways, offset by decreases in expenditures of $4.2 million in marine installations and $1.4 million in electric generating plants at ports and airports owned by Transport Canada.

- **Acquisitions of machinery and equipment**

  The planned expenditures related to ***Acquisitions of machinery and equipment*** for 2014-15 decreased by approximately $27 million compared to the 2013-14 planned expenditures. The decrease is a result of funding moved to future years for the Detroit River International Crossing.

- **Transfer payments**

  The planned expenditures related to ***Transfer payments*** for 2014-15 increased by approximately $215.3 million when compared to the planned expenditures for 2013-14. The causes of the variances are explained in section 2.1.3.

  The year-to-date expenditures related to ***Transfer payments*** at September 30, 2014 increased by approximately $7.3 million compared to the 2013-14 second quarter year-to-date expenditures. The increase is largely attributed to increases in year-to-date expenditures regarding the Oshawa Harbor Port Consolidation Program ($4.5 million) and the Asia Pacific Gateway and Corridor Transportation Infrastructure Fund ($2.7 million).

- **Other subsidies and payments**

  The planned expenditures related to ***Other subsidies and payments*** for 2014-15 increased by approximately $9.2 million when compared to the planned expenditures for 2013-14. The variance is due to an increase in the annual statutory payments to the St. Lawrence Seaway Management Corporation.

  The year-to-date expenditures related to ***Other subsidies and payments*** at September 30, 2014 increased by approximately $32.9 million when compared to the 2013-14 second quarter year-to-date expenditures. The increase is largely attributed to a larger cashflow requirement from the St. Lawrence Seaway Management Corporation when compared to the same prior year period ($17.5 million) and a one-time transition payment of $15.1 million for implementing salary payment in arrears by the Government of Canada.

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.

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.

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

The following change in senior personnel was made during the second quarter:

- The appointment of Ms. Natasha Rascanin to the position of Assistant Deputy Minister, Programs, effective August 11, 2014.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that are being 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 (expenditure basis) 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 focus on supporting management excellence and accountability across government.

In the first year of implementation, Transport Canada achieved savings of approximately $37 million. Savings increased to $47 million in 2013-14 and will result in ongoing savings of $62.1 million in 2014-15.

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;
- Focus on core functions which are in line with the Department's mandate and strategic outcome structure.

Approved by:

Original signed by

Louis Lévesque,
Deputy Minister
Ottawa, Canada

November 28, 2014

Original signed by

André Lapointe,
Chief Financial Officer
Ottawa, Canada

November 28, 2014

Statement of Authorities (Unaudited)

(in thousands of dollars)	Fiscal year 2014-2015			Fiscal year 2013-2014		
	Total available for use for the year ending March 31, 2015 [1]	Used during the quarter ended September 30, 2014	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2014 [1]	Used during the quarter ended September 30, 2013	Year-to-date used at quarter-end
Vote 1 – Operating expenditures	630,580	165,868	309,173	600,289	141,406	266,741
Vote 1 – Revenues credited to the vote	(86,667)	(21,278)	(38,611)	(86,033)	(25,321)	(39,085)
Vote 5 – Capital expenditures	164,044	15,251	16,807	222,078	10,562	11,637
Vote 10 – Grants and contributions	757,957	30,471	41,736	543,951	25,305	35,123
Budgetary statutory authorities						
Contributions to employee benefit plans	68,507	28,545	28,545	72,570	36,285	36,285
Minister of Transport – Salary and motor car allowance	80	40	80	79	33	53
Minister of State – Motor car allowance	-	-	-	2	-	-
Refunds of amounts credited to revenues in previous years	-	10	10	-	-	-
Payments to the Canadian National Railway Company – Victoria Bridge, Montreal	3,300	327	443	3,300	611	611
Northumberland Strait Crossing Subsidy Payment	62,836	-	61,733	61,582	-	60,830
Payments in respect of St. Lawrence Seaway Agreements	103,350	22,086	50,686	94,200	481	32,081
Total authorities	**1,703,987**	**241,320**	**470,602**	**1,512,018**	**189,362**	**404,276**

(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 2014-2015			Fiscal year 2013-2014		
	Planned expenditures for the year ending March 31, 2015	Expended during the quarter ended September 30, 2014	Year-to-date expended at quarter-end	Planned expenditures for the year ending March 31, 2014	Expended during the quarter ended September 30, 2013	Year-to-date expended at quarter-end
Expenditures:						
Personnel	483,781	156,364	260,639	489,720	138,466	243,196
Transportation and communications	30,518	6,437	12,338	29,515	4,884	9,459
Information	3,397	523	878	3,221	332	698
Professional and special services	139,892	20,366	31,835	114,337	21,325	31,421
Rentals	6,998	3,165	4,220	4,467	3,332	4,488
Repair and maintenance	17,057	2,282	3,765	16,715	3,095	4,073
Utilities, materials and supplies	16,863	3,893	7,281	14,965	4,121	7,402
Acquisition of land, buildings and works	91,883	12,113	12,531	122,271	8,427	8,858
Acquisition of machinery and equipment	72,822	3,470	5,423	99,807	2,512	3,671
Transfer payments	824,093	30,798	103,912	608,833	25,916	96,564
Other subsidies and payments	103,350	23,187	66,391	94,200	2,273	33,531
Total gross budgetary expenditures	**1,790,654**	**262,598**	**509,213**	**1,598,051**	**214,683**	**443,361**
Less revenues netted against expenditures:						
Vote-netted revenues	(86,667)	(21,278)	(38,611)	(86,033)	(25,321)	(39,085)
Total Revenues netted against expenditures:	**(86,667)**	**(21,278)**	**(38,611)**	**(86,033)**	**(25,321)**	**(39,085)**
Total net budgetary expenditures	**1,703,987**	**241,320**	**470,602**	**1,512,018**	**189,362**	**404,276**