

Quarterly Financial Report of

TRANSPORT CANADA

(Unaudited)

For the quarter ended December 31st, 2019

TRANSPORT CANADA

Quarterly Financial Report

For the Quarter Ended December 31, 2019

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

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](#).

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 Transport Canada consistent with the Main Estimates for the 2019-2020 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 increased by approximately \$488.9 million, from \$1,650.5 million as of December 31, 2018 to \$2,139.4 million as of December 31, 2019, as summarized below:

Table 1: Significant Changes in Authorities (in thousands of dollars):

Authorities ⁽³⁾	2019-2020 ^(1 & 2)	2018-2019 ⁽¹⁾	Variance
Vote 1 – Net operating expenditures	760,259	752,478	7,781
Vote 5 – Capital expenditures	166,013	169,371	(3,358)
Vote 10 – Grants and contributions – Efficient Transportation System	612,064	419,159	192,905
Vote 15 – Grants and contributions – Green and Innovative Transportation System	332,848	44,733	288,115
Vote 20 – Grants and contributions – Safe and Secure Transportation System	48,990	38,323	10,667
Budgetary statutory authorities ⁽³⁾	219,219	226,398	(7,179)
Total Authorities	2,139,393	1,650,462	488,931

Notes:

- (1) Totals may not add or may not agree with details provided elsewhere due to rounding.
- (2) Excludes funding from the authorities in the Budget Implementation Votes.
- (3) See Statement of Authorities for more details.

The accompanying Statement of Authorities illustrates the total authorities available for use, the authorities used for the quarter, 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 December 31, 2019 are explained below.

2.1.1 Vote 1 – Net Operating Expenditures (Increase of \$7.8 million)

Planned operating authorities increased by \$7.8 million from 2018-2019 to 2019-2020, mostly explained by the following factors:

- An increase in funding of:
 - \$13.4 million for the National Trade Corridors Fund to allow Canadians to compete in key global markets, trade more efficiently with international partners, and create jobs for Canadians;
 - \$6.8 million for Delivering Better Service for Air Travelers to ensure that air travelers and workers at airports are effectively screened;
 - \$4.7 million for the Federal Contaminated Sites Action Plan which is a continuation of government efforts to clean up contaminated sites;

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- \$3.5 million in compensation allocation related to the recently signed collective agreements;
 - \$2.9 million to allow the Government to complete its due diligence of VIA Rail's High Frequency Rail proposal;
 - \$2.7 million for the Enhanced Road Safety Transfer Payment Program to modernize regulatory frameworks;
 - \$2.4 million for the [Canadian Navigable Waters Act](#) (CNWA) to transition to new impact assessment and regulatory processes; and
 - \$1.1 million for the Enhanced Passenger Protect Program to prevent people who could be a threat to national security from boarding a plane.
- Offset by a decrease in funding of:
 - \$23.8 million for the Port Asset Transfer Program (PATP) to reduce the number of Transport Canada owned ports, through sale, divestiture or closure/demolition; and
 - \$6.6 million in the Operating Budget Carry Forward compared to the previous fiscal year.

2.1.2 Vote 5 – Capital Expenditures (Decrease of \$3.4 million)

Planned Capital authorities decreased by \$3.4 million from 2018-2019 to 2019-2020, largely explained by the following factors:

- A decrease in funding of:
 - \$11.1 million for the sunseting of Budget 2014 and Budget 2016 Federal Infrastructure Initiatives; and
 - \$8.3 million for Protecting Marine Life, including the protection and recovery of endangered whale populations.
- Offset by an increase in funding of:
 - \$10.0 million from Budget 2018 for Strengthening Airports Serving remote Communities;
 - \$4.0 million for the World Class Tanker Safety System to prevent pollution from ships; and
 - \$2.3 million for the Oceans Protection Plan.

2.1.3 Vote 10 – Grants and Contributions – Efficient Transportation System (Increase of \$192.9 million)

Grant and contribution authorities for Vote 10 increased by \$192.9 million from 2018-2019 to 2019-2020, largely explained by the following factors:

- An increase in funding of:
 - \$173.3 million for the National Trade Corridors Fund; and
 - \$59.1 million for the Port Asset Transfer Program.
- Offset by a decrease in funding for the following programs that are approaching retirement:
 - \$36.5 million for the Gateways and Border Crossings Fund; and
 - \$4.8 million for the Asia Pacific Gateway and Corridor Initiative.

2.1.4 Vote 15 – Grants and Contributions – Green and Innovative Transportation System (Increase of \$288.1 million)

Grant and contribution authorities for Vote 15 increased by \$288.1 million from 2018-2019 to 2019-2020, largely explained by the following factors:

- An increase in funding of:
 - \$233.2 million for Encouraging Canadians to Use Zero Emission Vehicles;
 - \$30.0 million for the Crude Oil Tanker Demonstration Program;
 - \$21.3 million for the Program to Protect Canada's Coastlines and Waterways; and
 - \$3.0 million for the Program to Advance Indigenous Reconciliation (PAIR).

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2.1.5 Vote 20 – Grants and Contributions – Safe and Secure Transportation System (Increase of \$10.7 million)

Grant and contribution authorities for Vote 20 increased by \$10.7 million from 2018-2019 to 2019-2020, largely explained by the following factors:

- An increase in funding of:
 - \$7.2 million for the Enhanced Road Safety Transfer Payment Program; and
 - \$3.5 million for the Rail Safety Improvement Program.

2.1.6 Budgetary Statutory Authorities (Decrease of \$7.2 million)

The planned expenditures for the budgetary statutory authorities decreased by \$7.2 million mainly as a result of a decrease in capital and operating requirements associated with the St. Lawrence Seaway Management Corporation (SLSMC) in the amount of \$17.8 million. 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 a reduction in funding provided by Transport Canada to SLSMC following the completion of its asset modernization program. The decrease in planned spending was offset by an increase of \$10.8 million in planned contributions to Employee Benefits Plans.

2.2 Statement of Departmental Budgetary Expenditures by Standard Object

The accompanying Statement of Departmental Budgetary Expenditures by Standard Object illustrates annual planned expenditures, quarter and year-to-date expenditures for the current fiscal year, and comparative figures for the previous fiscal year. Overall, the year-to-date expenditures at the end of the third quarter of 2019-2020 represent 47% of the annual planned expenditures, which is consistent with the third quarter of 2018-2019.

Historically, most spending on high-dollar value, major infrastructure grant and contribution 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 periods. 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 a result of a timing difference between the date the goods or services were obtained and the invoices received. In addition, there is also a ramp up of operational activities in the last quarter following the mid-year internal budget reallocations, and receipt of increased funding for new initiatives, for which the majority of expenditures will be incurred in the fourth quarter.

The major year-to-year variances as at December 31, 2019 are as follows:

Planned Expenditures

○ **Personnel**

The planned expenditures related to **Personnel** for 2019-2020 increased by approximately \$69.4 million primarily due to an increase in funding for the following initiatives:

- \$28.9 million for a reallocation of planned spending to personnel based on previous years' expenditures;
- \$14.6 million as a result of increased staffing levels as Transport Canada implements various Budget 2018 and 2019 initiatives;
- \$11.0 million for an increase in contributions to Employee Benefits Plans;
- \$8.7 million in the Operating Budget Carry Forward for 2019-2020; and
- \$6.2 million in Capital Salary funding.

○ **Professional and Special Services**

The planned expenditures related to **Professional and Special Services** decreased by approximately \$30.0 million, mainly as a result of the decrease in funding for the Transportation Infrastructure (Port Asset Transfer Program), a decrease in funding from the operating budget carry forward as well as a decrease in funding from the proceeds of sales of surplus real property.

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

The planned expenditures related to *Acquisition of land, buildings and works* for 2019-2020 increased by \$46.4 million, mainly as a result of a reallocation of \$56 million in planned expenditures for the St. Lawrence Seaway offset by reductions of \$7.5 million in planned spending for Budget 2014 and Budget 2016 for Federal Infrastructure Initiatives (FII) that are nearing completion.

- **Transfer payments**

The planned expenditures related to *Transfer payments* for 2019-2020 increased by approximately \$491.4 million when compared to the planned expenditures for 2018-2019. The causes of the variances are explained in sections 2.1.3 to 2.1.5.

- **Other Subsidies and Payments**

The planned expenditures related to *Other Subsidies and Payments* for 2019-2020 decreased by approximately \$83.9 million and is mainly a result of a reallocation of \$74.2 million in planned expenditures for the St. Lawrence Seaway to other standard objects as well as a reduction of \$8.5 million in Operating budget carry forward and \$0.5 million in Capital budget carry forward.

Year-to-Date Expenditures

- **Personnel**

The year-to-date expenditures related to *Personnel* at December 31, 2019 increased by approximately \$28.9 million compared to 2018-2019. The increase is mainly driven by the rise in the number of employees because of new departmental initiatives such as the creation of a Multimodal Business Transformation Team and an increase of personnel in the Aviation Safety Certification and the Protection of Oceans and Waterways programs.

- **Professional and special services**

The year-to-date expenditures related to *Professional and special services* at December 31, 2019 increased by approximately \$26.2 million when compared to 2018-2019. The increase is largely explained by an increase in legal services as well as higher consulting services for the remediation of contaminated sites and information technology.

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

The year-to-date expenditures related to *Acquisition of land, buildings and works* at December 31, 2019 increased by approximately \$65.6 million when compared to 2018-2019. This increase is mainly due to the reallocation of the St. Lawrence Seaway expenditures by standard objects was completed on a quarterly basis in 2019-2020 whereas in 2018-2019 the allocation was only done at year end. In addition, there were larger investments in 2019-2020 for projects such as the paving of an airstrip at the Kuujjuaq airport.

- **Acquisition of machinery and equipment**

The year-to-date expenditures related to *Acquisition of machinery and equipment* at December 31, 2019 increased by approximately \$8.2 million when compared to 2018-2019. This increase is mainly due to the acquisition of parts and accessories for aircraft as well as electric lighting, distribution, control equipment and parts.

- **Transfer payments**

The year-to-date expenditures related to *Transfer payments* at December 31, 2019 increased by approximately \$166.1 million when compared to 2018-2019, mainly explained by the incentive payments for the new Zero Emission Vehicles program and higher contributions for Ferry Services Stewardship and Support as well as the National Trade Corridors Fund.

- **Other subsidies and payments**

The year-to-date expenditures related to *Other subsidies and payments* at December 31, 2019 decreased by approximately \$61.2 million when compared to 2018-2019. This decrease is mainly explained by a reallocation of the St. Lawrence Seaway expenditures by standard objects that was completed on a quarterly basis in 2019-2020 whereas in 2018-2019 the allocation was only done at year end. This decrease is also due to a timing difference in the settlement of the suspense account for expenditures incurred by the Department related to intergovernmental transactions.

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3. Risks and Uncertainties

Transport Canada maintains a Corporate Risk Profile which identifies and assesses high-level risks that could affect the achievement of departmental 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 Transport Canada's key risk areas is presented in the [2019-2020 Departmental Plan](#).

Certain risks would have financial impacts should they materialize; for example many factors affecting the timing of transfer payments lie outside of Transport Canada's control and could require funds to be re-profiled to future years. To minimize these impacts, Transport Canada 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. However, the number and the value of outstanding acting pay has been diminishing since 2018-2019. The pay system issues have also generated salary overpayments. Transport Canada works with the employees in question to recover the funds through a repayment plan to ensure that they do not experience any undue hardships. The impact of the pay system issues 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.

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. Transport Canada'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 loss of key personnel represents a risk for most organizations. As highlighted in section 4 below, there have been a number of changes in senior personnel within the last quarter. Transport Canada mitigates that risk through its succession planning strategy, as well as promptly launching staffing processes and having experienced personnel acting in those roles during their vacancy.

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

Following an extensive competitive sale process undertaken by the Canadian Development Investment Corporation (CDEV), new ownership has taken over at Ridley Terminals Inc. (RTI) as of December 20, 2019. CDEV announced on July 11, 2019 that Canada had reached an agreement to sell 90 per cent of its shares in RTI to a company owned by Riverstone Holdings and AMCI Group, with the remaining 10 per cent of Canada's shares to be transferred to a limited partnership jointly owned by the Lax Kw'alaams Band and the Metlakatla First Nation at the close of the sale as well as Benefits packages concluded with other local Indigenous Groups. RTI is a Crown corporation in the Transport Portfolio created to support the shipment of coal from two now defunct coal mines in northeastern British Columbia. RTI currently operates a bulk commodity terminal on Ridley Island, in Prince Rupert, British Columbia on federal land leased from the Prince Rupert Port Authority with a commercial mandate to provide continuous, high-quality, and high-performance rail car unloading, product storage, and loading services as a marine terminal.

The following changes in senior personnel occurred during the third quarter:

- On November 1, 2019, following the retirement of Dan Dugas, Director General, Communications, the Deputy Minister announced the appointment of Jacqueline Roy, to fulfill that position starting December 9, 2019.
- On November 8, 2019, following Martin Rubenstein's new appointment as Director General and Chief Audit Executive of Immigration, Refugees and Citizenship Canada (IRCC), the Deputy Minister announced the appointment of David Leach as Acting Chief Audit and Evaluation Executive, and Integrity Officer, effective November 18, 2019.

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- On December 12, 2019, the Prime Minister announced the appointment of Chris Bittle as Parliamentary Secretary to the Minister of Transport.

Approved by:

Original signed by

Michael Keenan,
Deputy Minister
Ottawa, Canada

February 28, 2020

Ryan Pilgrim, CPA, CA
Chief Financial Officer
Ottawa, Canada

February 21, 2020

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Statement of Authorities (unaudited)

<i>(in thousands of dollars)</i>	Fiscal year 2019-2020			Fiscal year 2018-2019		
	Total available for use for the year ending March 31, 2020 ⁽¹⁾	Used during the quarter ended December 31, 2019	Year-to-date used at quarter-end	Total available for use for the year ending March 31, 2019 ⁽¹⁾	Used during the quarter ended December 31, 2018	Year-to-date used at quarter-end
Vote 1 – Operating expenditures	836,909	192,075	550,634	822,051	200,644	527,319
Vote 1 – Revenue credited to the vote	(76,650)	(19,486)	(55,276)	(69,573)	(19,564)	(52,742)
Vote 1 – Net operating expenditures	760,259	172,589	495,358	752,478	181,080	474,577
Vote 5 – Capital expenditures	166,013	38,306	76,232	169,371	19,833	39,666
Vote 10 – Grants and contributions – Efficient Transportation System	612,064	65,373	117,956	419,159	40,947	81,445
Vote 15 – Grants and contributions – Green and Innovative Transportation System	332,848	81,826	128,891	44,733	590	1,558
Vote 20 – Grants and contributions – Safe and Secure Transportation System	48,990	1,031	1,953	38,323	811	1,325
Budgetary statutory authorities						
Contributions to employee benefit plans	88,687	19,885	59,654	77,841	18,817	56,452
Minister of Transport – Salary and motor car allowance	88	22	66	86	22	65
Railway Company – Victoria Bridge, Montreal	3,300	1,896	1,896	3,300	-	1,230
Northumberland Strait Crossing Subsidy Payment	67,273	-	66,999	67,544	-	66,046
Refunds of amounts credited to revenues in previous years	-	-	1	-	10	10
Spending of proceeds from Crown Asset	-	-	-	-	-	-
Payments in respect of St. Lawrence Seaway Agreements	59,871	45,845	57,244	77,627	36,103	54,310
Total Budgetary statutory authorities	219,219	67,648	185,860	226,398	54,952	178,113
Total budgetary authorities	2,139,393	426,773	1,006,250	1,650,462	298,213	776,684

Note:

(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 2019-2020			Fiscal year 2018-2019		
	Planned expenditures for the year ending March 31, 2020	Expended during the quarter ended December 31, 2019	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2019	Expended during the quarter ended December 31, 2018	Year-to-date used at quarter-end
Expenditures:						
Personnel	658,739	164,959	470,411	589,351	150,698	441,454
Transportation and communications	38,766	8,547	21,617	36,501	10,323	24,416
Information	6,642	716	1,818	4,503	693	1,686
Professional and special services	188,315	39,198	98,104	218,347	33,298	71,897
Rentals	12,938	1,625	7,483	12,270	1,633	6,227
Repair and maintenance	13,552	2,693	7,244	13,389	3,181	7,082
Utilities, materials and supplies	18,348	3,799	12,386	19,474	4,202	12,792
Acquisition of land, buildings and works	136,661	58,240	87,149	90,270	11,949	21,585
Acquisition of machinery and equipment	60,043	14,441	25,069	61,380	5,379	16,886
Transfer payments	1,064,475	150,126	317,695	573,059	42,348	151,604
Other subsidies and payments	17,564	1,915	12,550	101,491	54,073	73,797
Total gross budgetary expenditures	2,216,043	446,259	1,061,526	1,720,035	317,777	829,426
Less Revenues netted against expenditures:						
Vote-netted revenues	(76,650)	(19,486)	(55,276)	(69,573)	(19,564)	(52,742)
Total Revenues netted against expenditures:	(76,650)	(19,486)	(55,276)	(69,573)	(19,564)	(52,742)
Total net budgetary expenditures	2,139,393	426,773	1,006,250	1,650,462	298,213	776,684